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BANKING

ETC.

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A PRACTICAL TREATISE

ON

BANKING, CURRENCY, AND THE EXCHANGES

26905

BY

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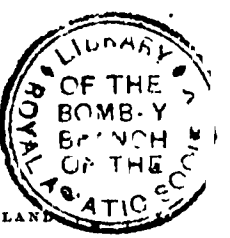
BANK MANAGER

FORMERLY OF THE BANK OF ENGLAND



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PREFACE.

'Une science ne fait de véritables progrès que lorsqu'on est parvenu à bien déterminer le champ où peuvent s'étendre ses recherches et l'objet qu'elles doivent se proposer; autrement on saisit çà et là un petit nombre de vérités sans en connaître la liaison, et beaucoup d'erreurs sans en pouvoir découvrir la fausseté.'*

I VENTURE to submit the present volume for the approval of the public, in the hope that its perusal—more especially by the rising members of the profession, whose daily occupation is practical banking—may awaken a livelier interest in, and lead to a more general study of these subjects; and it will, I trust, not prove uninstrumental in inducing them to bring what experience they may have had to assist in the discussion

* Traité d'Économie Politique, par Jean-Baptiste Say.

of any measures of banking reform that may be proposed from time to time.

It would seem not only desirable but necessary that when suggestions are thrown out for the improvement of methods and systems, practical bankers should be the recognised authorities, by virtue of their closer acquaintance with the practice of their craft.

The study of the theory and practice of banking no doubt suffers considerable neglect by reason of there being no special qualifications demanded of those who are elected into the service of banking institutions. A student seldom takes a deep interest in any subject until he has removed much of that elementary matter which forms the exterior crust of all sciences, and which requires diligent application to succeed in penetrating; after which the interest becomes more and more engaged.

The career of a banker's clerk for the first few

years is comparatively a waste of time, so far as any progress in the science of his profession is concerned. There can be no reasons given why men should not be compelled to pass a commercial examination previous to engaging in business of any kind—business that cannot be termed exactly trade—any more than for medicine or the army; and if such a system were introduced, there can be little doubt that in many instances men would be induced to continue the study of financial and banking questions, and thereby materially assist in elucidating some of the points which are so frequently brought forward for discussion, and let drop again without any satisfactory solution having been arrived at. We see occasionally brilliant attacks made upon this or that part of our commercial machinery, as it proves unequal to the strain; but from the intricacy and wide spread of all the practical details, which must be thoroughly examined before any reform of one

part can be carried through without injury to another, it is necessary that the attention of those who are daily in the habit of practically dealing with such matters, should be aroused to consider and deliberate upon any proposed change, so that the persons whose habits of thought lie in the groove in which we require amelioration, should be brought to interest themselves more, and assist in perfecting the means at our disposal.

The present volume will be found to contain information gathered from various sources, the advantage of which in a *condensed* form has occurred to me during my banking career, and I trust, beyond being useful so far as it goes, it will stimulate to further research.

If the perusal of this humble effort may lead my fellow-workers to profit—however little—by what they may glean here, and push on farther into the depths of the subjects which will yet be productive of a rich store, I shall consider myself re-

warded in the thought that I have aroused some attention to questions which, as a rule, are much neglected by the rising members of the banking profession.

I must, in conclusion, offer my sincere thanks to my friend Mr. John Douglas Farrell, of the Bank of England, for his valuable advice and assistance during the compilation of this volume, more especially with reference to the chapter on 'Notes.'

A. C.

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BANKING

ETC.

CHAPTER I.

PART I.

THE ORIGIN AND USES OF BANKS.

THE WORD 'BANK' is derived from the Italian word 'banco,' a bench, which was erected in the market-place, where it was customary to exchange money. The Lombard Jews were the first to practise this system, the first bench having been established in Italy A.D. 808. Some authorities assert that the Lombard merchants commenced the business of money-dealing—employing bills of exchange as remittances—about the beginning of the thirteenth century; and that such a practice was also known in the south of France about the same period. Other authorities give these benches the name of *cambii*, informing us that they were

placed before the church doors for the purpose of exchanging the money of foreigners. These money-changers obtained the names of Lombards, or Cahoursini, the latter from a celebrated money-changer who flourished in the south of France. The Lombards spread themselves far and wide, finding their trade very profitable, and soon became established in every country. The tendency to imposition caused a supervision by the magistrates to be brought about, who obliged the bankers to deposit a certain sum as a guarantee for their good faith. Among other countries, these Jews found their way to England, and carried on their trade in the city of London; the street which they selected for their operations having borne the name of Lombard Street ever since, where some of the principal banks in London still carry on their business. These Lombard merchants were believed in England to have been natives of one of the four republics of Genoa, Lucca, Florence, or Venice,* and were supposed to have been sent to England by Pope Gregory IX. to provide convents and other societies with money; it having been made known that they

* Anderson 'On Commerce.'

were unable to pay the 'tenths,' which were rigorously enforced that year, 13 Henry III., 1229. The Lombard Jews were notorious for their usurious transactions, and they carried them to such an extent that they were expelled from the country in the reign of Queen Elizabeth.

When these Jews failed in Lombardy, their benches were broken by the populace, and hence our word *bankrupt.*

We find that 'argentaria' was the ancient Latin name for a bank or money-changer's shop, and that the banker or money-changer was called 'argentarius.' As these Lombard Jews came into such disrepute for their usurious dealings, they subsequently changed their name for 'cambiator' or 'cambitor,' meaning an exchanger. We learn that Philip the Fair formed these money-dealers into a corporation, and security was demanded by James II. of Arragon, previous to their commencing business, according to the statutes of Marseilles. Bills of exchange are said to have originated with these cambitores. Persons about to travel, instead of encumbering themselves with coin, applied to a cambitor and received in exchange for their specie a bill of exchange drawn upon another cambitor, as near as possible to the

place where they were going. These letters were called *literæ cambitoriæ*. Accurate information about the mode in which such documents were drawn is impossible to obtain. Some have recorded that these bills were drawn payable to a certain person; others assert that they were payable to bearer, and circulated from one to the other like our bank-notes. It is tolerably certain, however, that the Jews would pursue a system which conduced more to their own advantage than that of the public.

About the middle of the twelfth century it became evident, as the advantage of coined money was gradually acknowledged, that there must be some controlling power, some corporation of men who would undertake to keep the coins — that were to bear the royal stamp — up to a certain standard of value; as, independently of the 'sweating'*—which invention we may place to the credit of the ingenuity of the Lombard merchants—all coins will, by wear or abrasion, become thinner, and consequently less valuable; and it is of the last importance, not only for the credit

* A term given to various processes invented by the Jews for obtaining a small quantity of gold from each sovereign, or other gold coin, without the loss being perceptible.

of a country, but for the easier regulation of commercial transactions, that the metallic currency be kept up to the standard. Much unnecessary trouble and annoyance has been caused by a disregard of the coinage being kept up to the standard of value originally fixed upon. England has, at more than one period of her history, suffered the most humiliating degradation by the neglect not only to keep her coinage up to the standard, but to insure the employment of persons to superintend the operations of the mint, who were endowed with moral rectitude, and whose integrity could not be purchased by the state. Large sums were obtained for royal purposes in the reign of Henry VIII. by falsifying the silver standard; and it fell to the lot of a woman, in the person of Queen Elizabeth, together with her advisers, to stamp the debased coins with their real value. These practices, however, we shall have occasion to investigate further, in a subsequent chapter.

The gradual merging of the business of a goldsmith into a bank appears to have been the way in which banking, as we now understand the term, was introduced into England; and it was not until long after the establishment of banks in other countries—for State purposes, the regulation

of the coinage, &c.—that any large or similar institution sprang into existence in England. We heretǫ annex a table of the principal banks, as they were established in different parts of the world, in chronological order.

The most important banks that had been established up to the year 1791 are the following:—

		A.D.
Bank of Venice	established	1171
„ Geneva	„	1345
„ Barcelona	„	1401
„ Genoa	„	1407
„ Amsterdam	„	1609
„ Hamburg	„	1619
„ Rotterdam	„	1635
„ Stockholm	„	1688
„ England	„	1694
„ Scotland	„	1695
„ France	„	1716
„ Copenhagen	„	1736
„ Berlin	„	1765
Caisse d'Escompte, France	„	1776
Bank of Ireland	„	1783
„ St. Petersburg	„	1786
Bank in the East Indies	„	1787
„ North America	„	1791

Branch banks were commenced in England in the year 1828.

Between the dates of the establishment of the bank at Rotterdam and that at Stockholm, Mr. Francis Child started a bank on the eastern side

of Temple Bar, London. He had for many years previously adopted the armorial bearings of the Lombards, and pursued the respectable vocation of a goldsmith, or what we understand to be a pawnbroker. This business he merged into a banking-house, which is still in existence. The banking firm of Child & Co. still carries on business under the same name; and as a proof of how people will adhere to ancient customs, it is only within the last few years that *printed* cheques have been in use in that establishment. The banking-house of Child & Co. was established in 1663, Hoare & Co. about 1675, and Snow & Co. 1680; this last having had thirteen years' experience before the Bank of England was established. The Bank of Scotland was established one year later, and it was not till 1783 that the Bank of Ireland commenced operations at St. Mary's Abbey, Dublin.

Concerning the invention of Venetian banks, there appear to be several opinions. Some say the first was contrived in 1150, others 1157. There was no doubt a sort of bank established at one or other of these dates for the purpose of assisting in arranging a loan for the Venetians, and that this institution was called the 'Chamber

of Loans;' but the Bank of Venice was not founded till 1171.

There can be little doubt that the word 'banking' was a term originally applied to the business of those persons whose chief trade was to lend out their *own* money, and that the back-bone of their establishments did not consist of the money of other people, which was intrusted to them in the form of deposits. In this opinion most writers appear to agree. That such a business would develop itself into what we find in modern institutions is only natural; as simply time would be required to prove that other people's money could be employed by the banker to the advantage of both himself and the depositor.

When the practice of lending money at interest was originated is not known, but from the progress made in other sciences — without it being necessary to ascertain the date — we may safely presume that such a practice was adopted from the earliest times.

We learn that money-lending was carried on very extensively after the return from the captivity; that the poor obtained money from the rich by mortgaging their lands, houses, &c.

The parable of the talents distinctly indicates

that money, as the representative of capital, was not to be allowed to lie idle.

We find also that the Athenians, as early as B.C. 146, converted their temples into banks of deposit, from which they were in the habit of lending to the public at interest.

Mr. Macleod tells us in his first volume of 'The Theory and Practice of Banking,' that the business of banking at Athens was in full vigour in the time of Demosthenes, and that the rate of interest was left absolutely free by Solon. Solon also had the extreme good sense, even at that early period, to see the absurdity of imprisonment for debt, and took away the right. Further on he tells us that 'the first mention of banking at Rome is in the year B.C. 352, when the Plebeians were in deep distress, and had to borrow money from new creditors to pay off the principal and interest of their old debts, and so got deeper and deeper into debt.' 'Another class of bankers, who were a permanent institution, were named *mensularii* or *numularii*, who both acted for the State, and also received the deposits of private individuals. They were also authorised by the State to act as exchangers, and give Roman coins for foreign ones at a fixed rate of exchange.

Those who were entirely private bankers were called *argentarii*. These private bankers transacted their business very much as many modern ones do; they kept their customers' accounts, and they introduced one of the greatest conveniences in the system of banking, viz. making payments by means of cheques. A cheque was called *attributio* or *prescriptio*. They also made use of promissory notes.'

The progress, however, in the science of banking attained to but a feeble growth either among the Greeks or Romans, and it was left to countries whose commercial prosperity has reached that of England or France, to push to their present perfection the banking facilities which are now afforded to those engaged in commerce, &c.

The bank next in European importance to the one established by the magistrates at Barcelona in 1401 was the Bank of St. George at Genoa, which, like the Bank of England, came into existence through the necessities of the State—large sums of money having been borrowed from the citizens from time to time, the interest of which was paid out of the revenue. It became at length too extensive an affair to be properly conducted unless under the management of an efficiently organised

administration; which having been established, the creditors' claims were consolidated to form a capital, with which the Bank of St. George commenced its career.

The Austrians pillaged the Bank of St. George in 1746, from which it never recovered.

The Bank of Amsterdam was established in 1609, adopting the same course as the Venetians —receiving the clipped and worn coins at a value equal to their weight in bullion, with the deduction for management and the expenses of recoinage. This Bank of Amsterdam appears to have set an example worthy of all praise, for it received the coins of *all* nations for the purpose of encouraging the bullion trade. The bank, by this means, prevented for the time the wear and tear of the coins by keeping them in their vaults, whilst the bank receipts circulated as notes, giving the bank the right to dispose of the bullion if not redeemed after a certain period of time had elapsed.

The citizens of Hamburg established a bank ten years later. It granted loans upon the security of precious stones among other peculiarities, and has even now a reputation attaching to it of adhering to antiquated and cumbrous systems, which one would hardly expect in a city which has reached

that high degree of commercial importance which Hamburg may be said justly to have attained.

PART II.

In reviewing the progress made by banks, as they were established in different parts of the world, we must of necessity keep before us the commercial standing of the countries in which these banks were created. Those nations which, from their geographical position, are shut out of the principal lines of commercial traffic, will be less likely to advance in that direction in which the facilities of banking are suggested by necessity —although commerce (from the Latin *commutatio mercium*) has existed since one commodity was exchanged for another, and, as Mr. M'Culloch says, 'is coeval with the first dawn of civilisation.' The perfection of our present system of banking— which in many respects is yet far from *quite* perfect —could never have been brought about in the absence of that enormous trade, and the consequent necessity for economy of time and means, which the existing inhabitants of Great Britain have lived to see. It is not our intention to introduce the

figures by which England has for so long a period dwarfed the efforts of every other country, in respect of either exports or imports. It is simply our intention to show that banking, as a great part of the machinery by which commercial transactions are conducted, could only have been advanced to its present state of perfection by the strain which has been constantly brought to bear upon old and cumbrous systems, until they have been gradually swept away by the genius and labour of a hard-working, practical, and enlightened people, whose mercantile prosperity has caused them to seek by degrees for improved methods.

No definite records having been handed down to us which throw any light upon the question as to whether written documents were used or not, we may presume that the commerce which is said to have flourished in Arabia, Egypt, and among the Phœnicians, in the earliest ages, was but a simple system of barter. Later on, we find that commercial relations existed A.D. 1241, by a confederation of maritime cities over the continent of Europe. The enterprise of the Portuguese and Dutch, added to the discoveries of Columbus, considerably enlarged the sphere of commerce; and this, we are informed, induced England to engage

extensively in its pursuit. England's first commercial treaty was entered into with the Flemings, 1 Edw. I., 1272, nearly four centuries before the firm of Messrs. Child & Co. was established as a bank. The second was with Spain and Portugal, 2 Edw. II., 1308. So long a period having elapsed before the great facilities afforded to commerce by banking establishments were suggested to so practical a people as the English, will sufficiently explain the very slow progress made by other nations, which are not celebrated for their practical superiority. The Romans were accustomed to keep banking accounts, and the system of book-keeping by double entry is said to have been taken from them.* We are surprised that neither the Greeks nor the Romans advanced further than they did—especially the latter, who, we are told, were people of decidedly commercial tendencies. To the Romans must be allowed, without doubt, the invention of transferring a debt by a written document, without the intervention of coined money.

The innumerable changes which have been introduced into the various systems invented for facilitating commercial transactions, adopted by

* Article Argentarii, Smith's 'Dic. Greek and Roman Antiquities.'

different nations during their passage through a period of seven centuries of time, demonstrate the enormous difficulties that have to be overcome in improving and advancing science, which are overturned on their march by revolutions, wars, and innumerable conflicting interests incessantly at work. The eager interest with which the merchants of all the commercial cities of the world in these times gather together at fixed days in each week at their Exchange institutions; the enormous amount of wealth which is always floating upon the seas, forming the basis upon which bills of exchange are drawn, to the extent of hundreds of millions sterling,* which are circulated into every corner of the globe, convey an idea of the intricacy of commerce—not forgetting the different values and kinds of money which nations have adopted—and brings forcibly home to us the importance of well-organised banks.

The first public institution in England partaking at all of the nature of a bank was founded by William I., which he called the Exchequer, from

* It is recorded that in the year 1825, so famous for disastrous speculations in bubble companies, 400 millions of pounds sterling were represented by bills of exchange in circulation; such statements, however, are not much to be relied upon.

'scaccum,' a chess-board—a chequered cloth being used with squares upon it resembling those upon a chess-board; so that, when counting the money, the different squares were understood to represent figures corresponding to the amounts placed upon them. With certain modifications, which an existence of 800 years would not fail to produce, it still remains. The Exchequer was originally called 'Scaccarium.' The English and Irish Exchequers were consolidated in 1816.

The various mints which existed prior to the Norman Conquest, and which, in the absence of other places of security, were used as banks of deposit, caused much unnecessary fluctuation in the currency, on account of the removal of these mints from one place to another, according to the caprice of the reigning monarch. Monasteries were considered safe places of deposit, the sacredness of the soil being considered proof against fraud. These mints, with few exceptions, were concentrated by Elizabeth into one, in the Tower of London, which was also used as a depository for cash, in the absence of bankers' strong rooms. This system continued in operation without interruption during the reign of James I.; but Charles I. laid violent hands on the money, and so destroyed

the credit of the Mint in 1640 for ever. The city merchants and traders were compelled after this to seek other places of safety, and ultimately deposited their money with the goldsmiths, who had settled in Lombard Street, and who possessed iron safes for their valuables. This was the origin of banking in England.

Before proceeding to examine the merits of any particular class of banking institutions such as we see in the present day, it will perhaps be in better order to enquire as to the real use of a bank, and what are the advantages such establishments afford to the community generally; and whether the latest period—if we may so term it—of banking-houses consists of corporations which have been established with a view honestly to earn their profits by legitimate banking business.

The use of properly organised and well-managed banks, and the important position they have held for so long a period, well justify the remark that 'banking is the hand-maid of commerce;' and it is by the introduction of such institutions that the resources of a country are developed and economised by bringing merchants and traders to settle their mutual indebtedness without the intervention of coin.

A bank best serves its own interests, and most rapidly gains a substantial footing with the public, by doing everything—within reasonable bounds—to facilitate commercial operations, and save the time and trouble of those persons who transact their business with it. The use of a bank is principally to take charge of people's money; the first condition being, that the sum deposited for safe custody be returned *when* agreed upon, and secondly, without deduction. We may take it for granted that interest was allowed by banks for money deposited with them in comparatively early times, as we find the word 'interest' in an Act of Parliament passed in the 21st James I., 1623, where it was meant to signify a just compensation for money lent. This Act fixed the rate at 8 per cent. per annum. It was lowered by the Commonwealth to 6 per cent. in 1650, and in 1714, 13th Queen Anne, was reduced to 5 per cent. The restraint of a fixed rate, however, was soon found altogether prejudicial to commerce, and the Acts were repealed by 17 & 18 Vict. c. 90, 1854. Aristotle is said to have stated that as money did not produce money, no equitable claim could be made for interest by the lender. We are told Calvin, the great reformer, was among the first to

show the absurdity of such notions. The founder of the French Crédit Mobilier, M. Pereire, has been accused of supporting the theory of a *fixed* rate of interest. It is high time, however, that every thinking man discarded such a notion once for all. Every day that sees mankind become more enlightened in the science of political economy, diminishes the number of believers in the possibility of having a fixed price for that particular commodity by which the value in exchange of corn, iron, or coal, is measured.

The use of a bank, then, is not only to take care of people's money, but to give them something for the use of it. It would, no doubt, seem natural when society was not so respectful to the laws of the country, and people were not characterised by such a high degree of honesty and integrity, that capitalists were glad to have their gains safely taken care of by persons who had iron safes and strong rooms built for the express purpose, and perhaps, in some cases, were not unwilling to pay for the secure custody. Large sums are always lying at the Bank of England idle even at this period of our history—*mirabile dictu*—no interest being allowed by that institution for money that is placed there upon deposit.

In the most enlightened seats of commerce money fluctuates in price like any other article that is in general use, that is influenced by the laws of supply and demand, and those who have any of it can obtain a price according to the market rate. Banks are the institutions which buy and sell money, and, like corn, or iron, or coal merchants, know the current rate when you apply to them. If you wish to leave money with them, they give you a higher or lower rate of interest per cent. according to circumstances. As a rule, more is allowed for long periods of fixed deposit than short; but some institutions will not allow so much per cent. for a long period as for a short, such rate depending upon the appearance of the market at the moment. There are many different circumstances which influence the price of money, and there are always agencies at work which tend to raise or lower it. The use of banks is to go hand in hand with commerce. They take the money of those who do not know how to employ it, and lend it to those who do, to the advantage of all three classes, and so what before remained idle is now made profitable. Like a thousand little rivulets which run into one mighty stream, and float the commercial navy

of England from London to the sea and distant climes; so the small depositors make one mighty sum, that can be employed in agriculture, railways, and a hundred different enterprises by which all classes are benefited, and the poor man can approach nearer to the privileges enjoyed by the rich. The profession of a banker, then, is to employ the money of other people, as we have before stated, to the advantage of those more immediately interested, and for the improvement of the community generally.

The next great function of a bank, after properly utilising the metallic currency of a country, is to provide a cheaper and more agreeable form of currency in the shape of bank-notes. The great power for good or for evil which is placed in the hands of banks by allowing them a paper issue, demonstrates the necessity of some impartial supervision, and we naturally look to the State—as the highest in authority, and therefore carrying the greatest weight, both moral and physical—to control the amount of paper currency which may be put in circulation by banks. Mr. Ricardo says, p. 214, 'After the establishment of banks, the State has not the sole power of coining or issuing money. The currency may as

effectually be increased by paper as by coin; so that if a State were to debase its money and limit its quantity, it could not support its value, because the banks would have an equal power of adding to the whole quantity of circulation.' Again, farther on, Mr. Ricardo's opinion of the importance of banks as regards their office as paper-issuers to the public is conveyed in the following paragraph: 'A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent. The use of paper instead of gold substitutes the cheapest in place of the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it before used for this purpose for raw materials, utensils, and food, by the use of which both its wealth and its enjoyments are increased.' There are many who object to the State having anything to do with controlling the operation of banks or their paper issues; but it must be borne in mind that there is a wide difference between the State being the issuer and the State controlling the issues of others. The State is the highest power that exercises control over public affairs, and is the motive power—so to

speak—of the empire, acting in obedience to the people's will. It is, therefore, reasonable to suppose that the Government, who are furnished with every assistance in the shape of legal advice, &c., should be the most competent power to control the operations of those institutions which are intrusted to an unlimited extent by the people.

Hear Mr. M'Culloch in his 'Commercial Dictionary,' p. 67, *Necessity of insuring the conversion of bank-notes into coin*: 'The taking of measures to insure the convertibility of bank-notes into coin is a matter which cannot be safely left to the discretion or judgment of individuals, but which must be settled by Government. No bank-notes should be permitted to circulate about the equivalency of which to the coins they profess to represent there can be the smallest room for doubt. It is alleged, indeed, that in this, as in most other things, we may safely trust to the prudence and sagacity of those who deal with banks; and that, if left to themselves, the public will very rarely be deceived. But the widest experience shows that but little if any dependence can be placed on this doctrine. The public is very apt to be misled, in the first instance, in giving confidence to or taking the paper of individuals or associations; and though

that were not the case, the condition of an individual or company may change, from bad or expensive management, improvident speculation, unavoidable losses, and fifty other things of which the public know nothing, or nothing certain. The fact that any particular banker who issues paper enjoys the public confidence is at best a presumption merely, and no proof that he really deserves it.' 'There have unfortunately been innumerable instances in which it has turned out that bankers who have long been in the highest credit, and whose notes had been unhesitatingly accepted by the public, have been found to be, on the occurrence of anything to excite suspicion, quite unable to meet their engagements.' From a report on the Extension of the Privilege of the Bank of France, in 1840, we find the following: 'Le droit d'émettre des billets est très avantageux; mais aussi il est si dangereux que l'État doit ou s'en réserver l'exercice ou le régler de manière à en prévenir les abus.' Mr. Ricardo, at p. 408, remarks, 'But if the public require protection against the inferior money which might be imposed upon them by an undue mixture of alloy, and which is obtained by means of the Government stamp when metallic money is used, how much more

necessary is such protection when paper money forms the whole, or almost the whole, of the circulating medium of the country? Is it not inconsistent that Government should use its power to protect the community from the loss of one shilling in a guinea, but does not interfere to protect them from the loss of the whole twenty shillings in a one-pound note? In the case of the Bank of England notes, a guarantee is taken by the Government for the notes which the bank issues, and the whole capital of the bank, amounting to more than eleven and a half millions, must be lost before the holders of their notes can be sufferers from any imprudence they may commit, &c. &c.' And again, 'Though I am by no means disposed to judge uncharitably of those who have occasioned so much ruin and distress to the middle and lower classes of the people, yet it must be allowed by the most indulgent, that the true business of banking must be very much abused before it can be necessary for any bank possessing the most moderate funds, to fail in their engagements; and I believe it will be found, in by far the major part of these failures, that the parties can be charged with offences much more grave than those of mere imprudence and want of caution.' M. J. B. Say

also agrees that the interference of Government is justifiable in two cases; first, to prevent fraud, and secondly, to certify a fact. ('Économie Politique,' Book I., chap. xvii.—See also Sir I. B. Byles on the 'Law of Bills of Exchange, &c.,' Preface, p. xi.)

The ruin and disaster that can be brought about by an absence of proper control over banks of issue—whether exercised by the State or a distinct corporation—is proved by the crash which took place among the American banks in 1857, when *all* the banks in the Union stopped payment, from the Gulf of Mexico to the frontiers of Canada. The kind of security which was demanded of the American issuing banks may be judged of from the following extract from a letter of the sub-secretary of the treasury of the United States, dated November 27, 1854, which we quote from Mr. M'Culloch's 'Commercial Dictionary:' 'The policy of many of the State governments has of late years consisted in encouraging the issue of small notes, by sanctioning the establishment of what are popularly called "free banks," with deposits of stocks and mortgages for the "ultimate" security of their issues. This "ultimate" security is, it may be admitted, better than no security at

all. The mischief is, that it *is least available when most wanted.* The very causes which prevent the banks from redeeming their issues promptly cause a fall in the value of the stocks and mortgages, on "the ultimate security" of which their notes have been issued. The "ultimate security" may avail something to the broker who buys them at a discount, and can hold them for months or years; but the labouring man who has notes of these "State security banks" in his possession finds, when they stop payment, that the "ultimate security" for their redemption does not prevent his losing 25 cents, 50 cents, or even 75 cents in the dollar. In a circulating medium we want something more than "ultimate security"—we want also "immediate" security; we want security that is good to-day and will be good to-morrow and the next day, and for ever after. This security is found in gold and silver, and in these only.' If, therefore, banks of issue generally are to be compelled to keep a stock of the precious metals as security against the paper money they issue, there *must* be a controlling power of the very highest order that will keep a constant check upon all banks, and guarantee the community against any loss from the confidence they may place in such institutions.

Good banks add to the wealth of society. A first-class merchant, instead of lending money, gives his name upon paper, which circulates as so much more capital until it is retired. The advantages to be gained by such a process led to the formation of banks of issue, who coined—so to speak—their own credit. The wealth which such banks have amassed is quite inconsiderable as compared with the benefit which has been derived by the community generally, by the addition of so much more capital with which various enterprises have been carried out. The issue of bank-notes forms an entirely distinct increase of capital, beyond that which is furnished by the paper money which is termed bills of exchange and promissory notes; and there is a wide difference between the two classes of paper. The bank-note is circulated entirely upon the faith of the issuing bank, without redress should the bank fail. If it could be proved that a note had been received from A, and that the bank had stopped payment before the recipient B had time to present it, using ordinary diligence, B could legally recover from A; but we believe, in practice, such has seldom succeeded. The bill of exchange is almost always drawn payable at some distant period, and each person hand-

ing a bill of exchange to another has to indorse it, thereby making himself responsible for the amount, unless his indorsement be 'without recourse.' Some pass them on immediately; others retain them for the sake of the interest that accrues upon them. On the other hand, the note possesses the advantage of commanding cash at a moment's notice. The bill, if of first class, may also do the same, with deduction of interest; but there is no certainty. Payment by a bill of exchange does not extinguish a debt in the same way that payment by a bank-note does; until the bill has arrived at maturity, and has been duly honoured, all parties to it are liable. Banks being the great depositories for cash, are naturally always in possession of large numbers of bills of exchange; but it does not follow that when they discount these bills—if they be asked to do so—that they pay, in cash. English bankers, *as a rule*, only discount for people who keep their current accounts with them; and in this manner credit is still further coined. The amount of the discounted bills, minus the interest, is placed to the customer's credit, who draws a cheque for it; this cheque is circulated as cash through various channels, and returns to the banker who discounted the bills, never having

been converted into cash at all. Very many banks have branches in various parts of the country and abroad, and all banks have agencies at most cities of importance. By this means payments may be made simply by the agency of paper all over the world. A payment of any reasonable sum may now be made to a bank in London, with orders to hand it over to a certain firm in Stockholm, and the whole transaction be completed in three hours. The use of an English bank, besides affording the before-mentioned facilities to the public, is to take care of valuable documents, deeds, and such like; to collect the money for all documents a customer may desire to have realised and credited to his account. The public are disposed also to look upon their banker as useful in recommending them good investments. This, however, we are of opinion a banker should not allow himself to go too far in, as no banker can keep himself sufficiently 'posted up' in such matters as to make his advice worth having; and he may have been ill-informed as to the nature of this or that security, which will be sure to cause unpleasantness if his advice be acted upon.

The four principal sources from which a bank derives its profit, and in return for which it renders

important services to the public, are the following: 1. The employment of the capital subscribed by the partners, and upon which the establishment is based. 2. The current and fixed deposits. 3. The amount of paper it is able to keep in circulation in the form of notes. 4. The sum of money which is constantly *in transitu*, and which, when the business of the bank becomes very large, constitutes a considerable standing balance. All the money, therefore, which the bank can obtain by either of these means, and by all, is employed for discounting, loans, investment in securities which can be immediately realised in case of urgent pressure for funds, and cash credits, excepting what must be kept in the 'till' for immediate use. The amount required for such purpose can only be judged of from hour to hour, as the bank works; and this is one of the most important features in management, and which requires much experience, depending upon the nature of the business, and many peculiarities which must be dealt with by the manager himself.

The real usefulness of a bank has been carried farther in Scotland than in any other country, so much encouragement having been given to the poorer classes to place their small earnings upon

deposit; sums as small as ten pounds having been for many years received by Scotch banks—a system which competition at last introduced into England. The Scotch bankers have from the beginning been able to afford greater facilities to the lower classes than the English bankers, as they have derived so much profit from the issue of their notes, whereas the London bankers do not enjoy this privilege.

The use of a bank consists in its keeping money constantly moving, driving it into every possible channel where it is required, and by this means stimulating production.

There can be no better instances than those of banks which have been established in parts of the country where industry was at a complete standstill for want of money, and which have been worked for some time at a dead loss, until the stimulus was given time to work its effect, when the return gradually came, and the bank received back its own with interest, and subsequently became a flourishing concern. This has taken place in Scotland, and has been cited in support of an argument in favour of the issue of small notes, before a committee of the House of Commons.

The use of a bank is made particularly apparent to persons travelling. Almost any bank will

change the circular notes of another well-known and respectable bank—without any advice—provided all appears in order. Large mercantile houses have, up to the present time, carried on a system of letters of credit to other merchants in all parts of the world; but it is evident that such business will be better attended to by an institution organised for that purpose, among others; and it is quite evident that all such business is by degrees being absorbed by the banks. Merchants are not in the habit of placing a semi-annual or even annual statement of their position before the public. Banks, for their own sakes, are obliged to do this; and, although much *may* be concealed that would injure them, if brought to light, they can seldom if ever *fail* with such disastrous effect as a merchant. The facilities afforded to travellers in the present day by the complete net-work of banks over almost the whole world, signally illustrates not only the necessity of advancing banking as a science, but the importance of its universal extension as an essential wheel in the machinery by which the entire commercial system is kept moving.

The use of a bank has been increased beyond measure by the aid of the telegraph. Bills unprovided

for — through the failure of one or other who should have made provision — may be retired in distant parts of the earth in a few hours, although on the verge of casting a cloud over the maker's credit. Banks in London, with their foreign branches, under a system of telegraphic signals, may be the means of staying a crisis; for many of these popular panics might have been avoided had the foolish terror of people not been aroused by rumours of expected failure, which in many cases have been brought about by the thoughtless rapidity with which people have demanded the return of money lent.

The use of a banker to his client is, that he will always willingly act as a referee, should it be necessary to establish your respectability in the mind of a person to whom you are unknown.

Your banker will collect the money for any and all documents that may come into your hands, and place the proceeds to your account. You draw cheques upon him for any bills you wish to settle, and so he saves you the trouble of counting your money. He pays your subscription to your club, and the premiums for your life and fire policies; undertakes the investment of your surplus funds. If a person wishes to obtain information of an-

other person who keeps a banking account, he finds immediately that such is impossible from the banker, unless he keeps an account himself, which enables him to get the information through his *own* banker. It is a custom among London bankers, and no doubt will become universal in course of time, to give each other such information immediately. Such a system affords to the public an inestimable advantage, as by such means a dishonest trader soon becomes known, and so got rid of.

A banker's pass-book affords a complete history of the expenditure for the year; and those who have not business habits will find this a great assistance in controlling their expenditure, at all events in the aggregate.

By keeping a banker, one has a right to ask of him or his subordinates a variety of questions with regard to the best means of remitting money to distant places, and other matters, which otherwise might cause much trouble in obtaining.

The use of a bank assists most materially in dispelling the notion that wealth consists in money. This idea has existed for an incredible period in the minds of men, who by a little reflection could have so easily got rid of it. Adam Smith destroyed

it in the minds of all men who were willing to study his arguments; and now the question no longer even causes a dispute. The gold which lies still in the bank is of no more use than the ore from which it is coined; it only becomes wealth when it is circulated, and by such circulation assists production. Much gold lies *always* still in the vaults of the Bank of England. It may be thought that this fact upsets our argument; but if a certain amount of specie forms the pivot around which twice as much in paper circulates, it is more productive by the proportion, than if it were in active circulation itself—leaving out of the calculation the loss caused by using so costly a material. Gold is the chosen representative of wealth; that commodity by which the value in exchange of everything else is measured, by reason of its being more suitable than any other substance, for more reasons than because it varies so little in cost of production, and, consequently, in value in exchange, and also presents the greatest worth in a more convenient form than any other product of the earth. This representative of wealth it is the object of banks to keep constantly moving, which is more and more productive just in proportion as it is kept in circulation without

ceasing. As the maxim among shopkeepers is, small profits and quick returns, so for a bank to combine profit with safety, it should keep whatever funds it may have for employment always on the move; never out beyond reach for too long periods at a time.

Doctor Adam Smith says, that the advantages to be derived from the establishment of banks may be compared to the profit which would be obtained from converting our highways into corn fields, and procuring a road through the air.

The most important addition to the facilities which banking institutions have invented for themselves, to enable them to adjust their mutual indebtedness without the trouble of presenting separately for payment the cheques or bills which one bank may hold payable at another bank, was the Clearing-house, which was established by the principal bankers in London in the year 1775. The system pursued is so simple that, suffice it to say, when the clerks of two different banks wish to exchange the cheques one may have upon the other, the balance—in whosesoever favour it may be—is paid by a cheque on the Bank of England, where every banker has an account. In the beginning the banks with the aid of the Clearing-

house were enabled to adjust several millions sterling of mutual indebtedness, employing only a few hundred thousand pounds; the mode of settlement, however, has now become so simplified that neither notes nor coin is required at all. It is only quite lately that the Bank of England entered the Clearing-house.

CHAPTER II.

TWO CLASSES OF BANKS.

BANKS may be divided into two classes—private banks, and joint-stock banks with, and without, limited liability. Formerly private banks could not have more than six partners. By the Act of Parliament 39 & 40 Geo. III. c. 28, section 15, no bank was allowed to be established whose partners should exceed six in number, 'to borrow, owe, or take up any sum or sums of money, on their bills or notes, payable on demand, or at any less time than six months from the borrowing thereof.' Later on, in the year 1826, an Act of Parliament, of 7 Geo. IV. c. 46, was passed, which allowed banking corporations to be established consisting of more than six persons; but they were not allowed to transact their business within sixty-five miles of London, and were prohibited from having any branch establishment in the city of London. Every member of a banking corporation

established under this Act was responsible for every and all its acts and deeds.

There are many provisions still unrepealed which affect banking corporations which have not been registered under the Joint-Stock Companies Acts of 1857 or 1862, or have not been incorporated by letters patent under the 7 & 8 Vict. c. 113. This last Act was passed in the year 1844, and gave permission to banks whose corporations consisted of more than six persons, and which had been established before May 6, to apply for letters patent, by which they could be incorporated under this Act. The 7 & 8 Vict. c. 113, gave to banking companies established within sixty-five miles of London, and incorporated on and after May 6, 1844, the great privilege of suing and being sued in the names of their public officers, provided they complied with the Act in other respects, by making the returns required. In 1857, however, the Act was repealed, and not till 1862 were the provisions for the banks suing and being sued in the names of their public officers re-enacted.

The latest Act of Parliament, that of 1862, affecting the establishment of banks, makes the following prohibitions in section 4:

1. No partnership of more than ten persons is

to be formed for banking purposes, unless it is registered under the Act, or is formed under some other Act of Parliament or letters patent; and,

2. No partnership of more than twenty persons is to be formed for the acquisition of gain, unless it is registered under the Act, or is formed under an Act of Parliament or letters patent, or unless it is formed for working mines within the jurisdiction of the stannaries; in fact, a cost-book mining company.

Banking corporations established under the 7 & 8 Vict. c. 113, who neglected to register before January 1, 1858, might be sued, but were unable to sue either in equity or at law. Managers and directors were subject to a penalty of 5*l.* for every day that elapsed after the registration should have been made, and the shareholders could receive no dividend. The above omissions, however, did not make the bank illegal.

Banking corporations registered under 20 & 21 Vict. c. 49, were required to register under the Companies Act of 1862, except the liability of their shareholders was limited by letters patent or Act of Parliament. Not having complied with the demands of the Act 20 & 21 Vict. c. 49, laid them open to the penalties above-named also.

In the year 1858 an Act was passed, 21 & 22 Vict. c. 91, which permitted banking corporations to be established with limited liability, under the Joint-Stock Companies Act of 1857. All other banks could make the liability of their shareholders limited, excepting in regard to their issue of notes; and for this they must remain unlimited, by registering under the Act. It was necessary, however, to make due publication of the fact, that all who kept accounts or had other business with the bank might be made acquainted with the change, and withdraw if they chose. The bank was also obliged to publish periodically a statement of its assets and liabilities.

Many banking companies, consisting of seven members or more, as is well known, have singly and with others become limited companies under the above Act. They are compelled, however, before registration, to obtain the consent of the majority of their members at a general meeting—the only alteration required in the name of a company registering under the Limited Liability Act being the addition of the word 'limited.'

Private banks, of six or ten members, may still carry on their business without being required to register themselves as banking companies; but,

without registration, the liability of the members cannot be 'limited.'

On its being proposed to start a banking company on the 'limited liability' principle, it is required that at least seven persons must sign a deed of association, having the following particulars contained therein: 1. The objects of the company; 2. The company's name, attaching the word 'limited' at the end; 3. A statement that the members' liability is limited; 4. Naming the place where the office of the company is to be situated; 5. The amount of each share, and total amount of the capital, with other particulars specified in the Act in detail.

A manager or director, who endorses or accepts a bill for a bank registered under the Limited Liability Act, without including the word 'limited,' becomes personally liable thereon.

From 1708 to 1826, the Bank of England was the only bank in London that could be established with more than six partners.

Private banks have formerly been worked upon the basis of a capital subscribed by not more than six persons, which, if one of whom die, his proportion has been withdrawn, unless any member of his family should succeed to his interest in the

concern. As a rule, all the partners in a private bank contribute to its administration; and it has long been a matter of dispute as to whether private banks under this system have not been more successful, in proportion to their means, than a joint-stock bank under the administration of salaried servants. It appears on the face of it reasonable that any business will be more lucrative when those who are directly interested in every one per cent. of extra profit are constantly on the look-out to take advantage of any lucrative investment that may present itself, or to secure the business of this or that firm or company. Mr. J. Stuart Mill, in his 'Principles of Political Economy,' bk. ii., p. 486, says: 'Management, however, by hired servants, who have no interest in the result but that of preserving their salaries, is proverbially inefficient, unless they act under the inspecting eye, if not the controlling hand, of the person chiefly interested; and prudence almost always recommends giving to a manager not thus controlled a remuneration partly dependent on the profits, which virtually reduces the case to that of a sleeping partner.' It will be seen, however, that a manager whose remuneration depends upon the profit will be very likely to engage in transactions

of a less secure nature than the partner of a private bank, whose fortune is at stake. A manager's income may also be at stake; but it is a natural and reasonable conclusion, that there can be no such controlling power constantly keeping his operations in check, as when his income and capital also are endangered by engaging in hazardous business.

Private banks may be looked upon now as institutions of the past. A couple of years even has seen many of the best of them swallowed up by the joint-stock system; and there can be no doubt which is the better suited to our times.

A joint-stock bank differs from a private bank—First, by its capital being permanent; secondly, its number of partners unlimited; and thirdly, in the form of its government. If a partner—or, as he is generally termed, a shareholder—die, his shares are simply transferred, and the capital undergoes no alteration. A joint-stock bank is directed by a board of gentlemen, drawn from various classes of society, under whom is a manager, who acts as their representative to the public, and who, under their control, administers the whole of the affairs of the bank, assisted by a sub-manager, secretary,

and subordinates, as the nature of the business may require.

Up to the year 1855,* shareholders in joint-stock banks were unlimited in their liability, by which system it will be seen that many rich men would be liable for their entire fortunes by becoming shareholders; and thus, banks of unlimited liability, on coming into positions of difficulty, would be likely to lose their best shareholders, as was often the case in the outset, when masters transferred their shares into the names of their servants. This, however, was put an end to by a special clause, which all banking copartnerships take care to include in their regulations, and which empowers the directors of a bank to refuse a transfer should they not approve of the transferee.

The Act of Parliament passed in 1855, limiting the liability of shareholders—not banks—to the amount of their shares, is looked upon by many as in principle vicious. There can be no doubt that a great number of banks, established with limited liability, have failed most disastrously both in England and America. The latter country especially has caused more ruin than any other

* Limited Liability Act, 20 & 21 Vict. c. 49.

by the stoppage of her banks, which are nearly, if not all, on the limited liability system. Some assert, with reason, that limiting the shareholders' liability takes off much of the pressure which should be constantly kept upon those whose duty it is to exercise caution and prudence in employing the bank's funds. Shareholders whose *all* is at stake, will see that prudent and experienced directors form the board, and a strict supervision will be insured, down to the clerks in the office.

There is great danger of a new bank getting itself and all connected with it into inextricable trouble when it does not at an early stage realise the hopes of its projectors; and how very often has this been the case! How many lamentable windings-up have we seen; how much endless disputing have we seen at general meetings, ending in friends becoming enemies; how many complicated law cases have filled the newspapers, placing in prominent relief misguided and inexperienced directors; how many unfortunate officers of all grades have been allured into the vortex by a few extra hundreds a year! Each new bank that comes out is always going to be such a grand success. All sorts of business will flow in as soon as the offices are opened. The prospects are so

bright, the preliminary expenses are begun with a light heart, and all goes well for a year or so, until the actors in so many of these unfortunate cases realise the delusion into which they have been led.

There is a great deal of romance that hangs round the starting of a new bank. There is too much distance between the present hopefulness and the future stern difficulties. There is no more royal road to banking profits than to any other sort of profits; and it is one of the most singular peculiarities in connection with men who have had much experience in other walks of trade, as merchants, &c., that they are as easily deluded into believing that a bank *must* be a success when it is brought out with a certain *éclat*, and the shares are well taken up, as younger men with much less experience. There is so much dust thrown into men's eyes by the opinions of others who, in the goodness of their hearts, wish to see all mankind pleased with any projects they may have in hand. In all these enterprises there is a great deal too much taken for granted, and trusted to chance, where matters should be properly investigated. In establishing a bank there is such a multitude of people interested, and so much property that must be lost in case of failure; that

such projects should not be left too much uncontrolled in the hands of a few, whose self-interestedness is so likely to lead them to disregard the real interests of others. There is a good deal of what is termed 'kudos' attaching to the office of director; and there are very few persons, unless their thirst for notoriety has been somewhat satiated, who have sufficient self-denial to refuse to become directors, when they inwardly know they bring *only* what prestige their name may have gained in any other walk in life to support the bank. Some men who have had nothing to do with banks before certainly *may* make good directors, but the danger always is that directors who are comparative novices will want to meddle too much in the management—possibly with the best of motives; but when certain functions are expected of certain people, and others who have a right to interfere by virtue of the position of director assume even occasionally those functions, then they do not weigh with due responsibility upon any one, and what should be some one's business becomes no one's. There can be nothing so injurious to the proper management of a bank as *certain* responsibilities not being fixed upon *certain* people. What is every one's

business is no one's; and where money of all things is dealt in, and its loss made possible by an absence of proper organisation, no establishment, having such inherent defects, can expect to obtain any position in the public estimation, or to succeed. Every officer should have a defined position written and agreed upon, and when each part is perfect the whole will be.

PERNICIOUS EFFECTS OF TOO MUCH COMPETITION IN COMMERCE AND BANKING—PROPOSED CHECK.

The facilities which in these times are afforded by the numerous banks and companies to any one with the smallest means who chooses to dabble in business matters, foster to a most hurtful extent those elements which have for some time past acted most injuriously against the steady and natural fluctuation in the price of credit and capital in this country. The broad area of commercial affairs has of late years been immeasurably extended, with undue and unsafe rapidity. The new ground has been occupied by saplings, which in many, if not most cases, strike out into extensive engagements before their roots have got hold of the ground, and are swept away by the first breath which may be produced by unexpected

agitation in the commercial world. New companies, which are supported by the profits derived from such sources, may survive a few summers; but when the traders, upon whose business their existence depends, are struggling to establish themselves upon ground that is already occupied, they can only expect a brief career, progressing to a certain point which will not be considered satisfactory by the shareholders for any length of time, and the inevitable winding up will be the only course left open.

To decide to what extent precisely, both banks and merchants can be established with benefit to themselves and the community at large, is a matter which is beyond the capacity of almost any tribunal; but it appears strange that commercial disorders follow one upon the other, without doubt most materially influenced by the evil to which I allude, without arousing the serious attention of those who are so damaged and occasionally ruined by its effects.

There are so many ways in which the eyes of the public may be blinded to the real position which a firm occupies, that it seems almost incomprehensible that merchants generally — most of whom we may presume wish to see their

profession exalted, and the mercantile community in their own country signalised by a system which will exclude incompetent and we may say dishonest persons from interfering with the proper and legitimate fluctuations in the rate of interest charged for the use of capital, &c.—do not combine for the purpose of checking and endeavouring to remove so great an obstacle to the progress of sound commercial business.

Now that the merchants and trading ranks of all denominations are so much increased, it stands to reason that a larger number of eyes and hands are incessantly watching and ready to grasp any description of business by which a profit may be made; and in consequence the profit upon almost everything is lowered by incessant competition, and the means by whose aid all business is carried on are raised to a higher price by the increased number who seek its assistance.

Political economy tells us, that populations increase in proportion to the means of subsistence. Pestilences and plagues occasionally sweep numbers from the face of the earth, and we may reasonably conclude that such means are employed by the Almighty for regulating the increase of mankind when they progress beyond the capacity

of the land where they are born to support them. A commercial crisis sweeps away the weak merchants who will make business in places beyond the capacity of those places to support them. The discretion of man in both cases being too little exercised, he loses sight of those principles by which his actions should be governed.

The undue increase in the number of merchants and traders must of necessity exercise a hurtful influence, sooner or later, upon those institutions whose business it is to furnish credit and capital to those who may require it. An increased number of applicants raises the price, and more lending institutions are established, which in their turn encourage speculative and dangerous trading, and in this way every department of the commercial system becomes weakened by too rapid and not sufficiently consolidated extension; and when any at all exceptional causes are at work to agitate mercantile affairs, the weak houses not only ruin themselves but bring down the institutions who encouraged their efforts, and whose existence in a measure depended upon their support.

The last few years have shown the high rate to which 'interest' has been forced in the London

market, by more than one cause, not the least of which is the great competition for accommodation which is constantly pressing upon the market. We have seen on several occasions, when the minimum interest charged by the Bank of England has receded to a moderate rate, a legion of undertakings, which have been waiting their opportunity, press forward; and the only means of driving them off is by making the charge more than they can bear. In extreme cases of disorder, of whatever nature, the first suggestion that presses itself upon us is, to contrive a combination of forces that will overcome and destroy whatever evil effects we may desire to get rid of. Banks as a body are established not only for the benefit and profit of those who establish them, but for the general convenience and assistance of all classes of the community. In quiet times when all works well and smoothly, the banks are left to make the most of their opportunities; but it is also expected by the public that they should at the same time not forget that the period will arrive when they must be prepared to assist and protect their supporters. This is only reasonable; and passing over any comments as to how far certain institutions have fallen short of what was expected of them in

this respect, we come to the question of how far is it possible for the future to provide against similar shortcomings. There can be little doubt that in banking, as in most other professions whose institutions are governed by certain fixed principles, which they are more or less all bound to follow, the safest system upon which they can proceed is that of *co-operation*.

It is related, and we believe truly, that certain Scotch banks are now in existence from their having adopted a system of co-operation at the first appearance of a 'run.' As an instance: a suspicion has been known to have arisen against a certain bank in Scotland, which caused a rapid 'run' on its deposits. Immediately the depositors obtained their money, and were outside the bank, they knew not what to do with it, and were found as a rule to place it in the nearest bank they came to. The bank receiving the funds of these panic-stricken depositors knew full well that unless the 'run' upon the first bank were immediately arrested, their own deposits would inevitably follow; the consequence was, that the funds brought by the frightened depositors were instantly returned to the besieged bank by one of the receiving bank's clerks. By such an

arrangement it will be evident that a 'run' may be most easily disposed of—instead of allowing a probably groundless feeling of distrust, which may take its rise from the most trifling and absurd causes, to grow to such dangerous dimensions; and it is not unlikely that numbers of the depositors, had they known the real origin of the alarm, would, instead of following the stream, have assisted the banks with further sums, rather than have withdrawn what they had already deposited. The age we live in, and the experience we have already had of banking, must have convinced most persons that no bank can, or is expected to be organised and worked to be at all times prepared to meet such sudden and crushing demands as these catastrophes produce, and that when merchants and capitalists of means know the position of the respective banks with whom they do business, to be sound, and from whom they obtain great facilities in ordinary times, they should rise above the level of forsaking them when times of pressure and distrust—which must occasionally happen to every concern—are weighing upon them.

Most shareholders in banks also keep their accounts with the banks in whose dividend they

are interested; and as they are, as a matter of course, anxious that the dividend should be as large as it can be consistently with safety, they wish to see the banks cleverly managed—managed so that all the spare funds are kept constantly employed, and that by their judicious and cautious arrangements as much as possible of other people's money should be intrusted to them for employment. In order, however, that all the funds which are constantly flowing into the bank from many sources should be employed, investments for comparatively long periods—such as six months—must be made, or the banks would be unable in ordinary times to 'place' their money, and prevent a loss of interest. It will be seen, then, that a bank upon a large scale which is compelled to receive vast sums—a good proportion of which it engages to return on demand—has not a fair chance allowed it when its shareholders, who take in quiet times the benefit derived from placing a certain proportion of such demand liabilities at longer periods in order to obtain a higher rate of interest, when the abnormal pressure comes, expect the bank to help itself how it can; to collect at once these six-month loans, and meet all the obligations,

which by its pretensions it certainly engages to do.

Mr. James Wilson made the following remarks upon this question in the 'Economist' paper, in the year 1845, which are quite worthy of reference. We are not able to give the number of the paper in which they appeared, but that is of no particular moment.

'The two great essential and fundamental principles, therefore, on which the success of banking depends, and to which hitherto very little attention has been paid in all the discussions which have taken place on the subject, are:

'1st. By what means can a bank attract the largest amount of deposits?

'2nd. In what way can a bank employ those deposits to the greatest advantage, consistently with the conditions on which they are made; that is, repayment on demand?

'These two propositions really do involve the whole art of banking, whether viewed as a source of profit to bankers, or as a source of economy, safety, and convenience to the public. We will consider them separately.

'First. By what means can a bank attract the largest amount of deposits?

'The first essential property which a bank must possess is a perfect confidence on the part of the public. The small amount of benefit which a banker can afford to give his customer for placing his money in his hands can never be sufficient to induce any man to run a hazard; and, more particularly, the mere difference of terms which one banker can afford compared with another cannot be sufficient to induce any man to give preference to more tempting terms, when weighed against a greater security and confidence.

'The want of this confidence, to a sufficient extent, and for a sufficiently long and uninterrupted period, has done more to injure the business of banking in England than any other circumstance. In this respect, and in the effect which the absence of confidence has exerted over the amount and character of the deposits of English banks, we discover a striking contrast between them and the banks of Scotland. Much of this fundamental defect in the character of English banks, if not all, we believe can be traced to the effects of legislation. Since the Bank of England was erected into a corporation, the restrictions which the Government has from time to time imposed on the exercise of capital and the independent efforts of

individuals, whether singly or in a combined form, in order to preserve the privileges of that establishment, we believe to have been the root of much if not all of the mischief and discredit which has attached to the banking practice of England. But for the peculiar privileges granted to the Bank from time to time, but for the restrictions thus placed on private enterprise, and the constant interference of the Government to tinker and patch up evils to which their own previous acts had led, there can be no doubt whatever that many years ago we should have had our banking establishments placed on the highest, safest, and most beneficial principles which free competition, intellect, and energy could suggest and carry into practice. Banking, above all other professions, is that which under entire freedom and non-interference would soonest be placed in the most perfect position. The public will not employ an unsafe bank while they have those of perfect safety with which they can deal, and who are ready to afford them all the facilities which banks can do. It may be said that some men, who are chiefly borrowers, have no choice with which bank they can deal. But to suppose that bad banks could be supported by

borrowers, with an indifferent credit, is absurd. It is the *lenders* and not the *borrowers*, and least of all the *inferior borrowers*, that constitute the strength and power of banks. We know what has been the result of the restrictions imposed on banking by the law in this country, and we have only to look to Scotland to see what has been the effect of a long career of perfect freedom and competition upon the character and credit of the banking establishments of that country, as well as in affording the greatest convenience and satisfaction to the public.'

The second proposition which Mr. Wilson submits for solution carries the assumption that all deposits are '*repayable on demand*.' Now, no bank accepts more than it can help, repayable on demand; or, I may say, a bank always prefers deposits with some days' notice of withdrawal. Neither do the depositors, in many cases, wish to place their money on these conditions, as they are not and cannot be allowed so much interest—as a rule—as when they give the banker a certain period of notice of withdrawal. A large proportion of every bank's deposits must necessarily be payable on demand, if they wish to have the accounts of merchants and such like, who can only

deal with them upon such conditions; as the nature of a merchant's business necessitates his having a certain sum of money at his immediate disposal. This convenience can be granted to the merchant, and at the same time a certain return, in the shape of interest, for the use of his credit balance; and such a system works exceedingly well in quiet times, as what one client draws another pays in, and so the two streams, with varying but generally moderate fluctuations, according to the activity which may exist and the employment that can be found for capital, neutralise each other, so far as to leave a proportion of from two-thirds to three-fourths, which the banker may safely employ without unjustifiable risk. This proportion, of course, varies in favour of the bank, as its transactions increase.

While every other bank looks upon the Bank of England as the responsible institution, as holding the metallic basis upon which the credit of the country is maintained, it cannot be expected that the directors of other banks will interest themselves in providing a system of co-operation to the same extent as they would were a general council organised, to which every bank and financial institution of importance was compelled to send a

member. Banking has so enormously expanded of late years that it will be found ere long that a complete reformation must be brought about, if the serious disturbances which commercial affairs occasionally drift into are to be handled and dealt with in such a manner that we are not held up to be ridiculed by the world. If a council were formed, at which each board of directors—having a certain status—was compelled to have one member present, and all boards would naturally choose the most enlightened and forward member of their body; at the approach of disturbances an immense and incalculable power to avert the mischievous results of over-trading and dishonest speculation would be at the disposal of the mercantile community and of the banking profession. By the establishment of such a council, the antagonistic feelings, which we have too great reason to believe exert at the present time a very hurtful influence over the progress of banking, might be to a great extent assuaged. In order to effect such an object, so that it might work harmoniously in itself, and the members of such council be in a position calmly and with matured judgment to deliberate upon the course to be pursued under any circumstances, every feeling of jealousy would have to be set aside.

There are a few large banks at the present time in London which have so consolidated their position that they may possibly be strong enough to stand alone under almost any pressure that can arise. Such institutions might refuse to attend such a council, for the reason stated; but if the presence of members from these large and influential establishments would give—which there can be no doubt they would—an elevating tone to the tribunal, which would require all the prestige and importance that could be collected, in order that its edicts might carry sufficient weight to influence the whole profession in following their advice, proposals for their co-operation should be so made as to insure their acceptance. The only council which has a recognised superiority, and which has taken upon itself to announce the rate of interest which the borrowing British public must pay from time to time, is the court of directors of the Bank of England. This corporation has, through a long series of years, gradually acquired a predominating power from its connection with the State; but the State merely employs this establishment as its banker, without exercising any influence whatever over the choice of its directors. It may easily be conceived, that in this

manner there can be no guarantee that the best men are ever allowed a voice in the consideration of the rate of interest. The public journals, however, especially the 'Economist,' 'Times,' and 'Daily News,' keep so close upon the heels of the bank court, that a false step on their part is immediately published by the press; and we may congratulate ourselves that so powerful a check upon their proceedings is already in existence.

The great advantage of the council I propose would be, that in times of extreme pressure, when an immense proportion of the country's capital was locked up; when vast sums lay invested in raw materials, which would probably experience much difficulty in realisation immediately there was any prospect of severe tightness in the market, a wide and extensive general knowledge of the position and standing of all houses at that particular period would be necessary, in order to avoid refusal of assistance to perfectly sound although temporarily embarrassed houses; for, notwithstanding the dishonest speculation which thoroughly bad and capitalless houses have practised from time to time, to the injury of those who were probably quite justified in anticipating that they would have been able to realise the commodities in which

their funds were at that period locked up, such fluctuations *may* arise in the earth's produce, and such contingencies may happen that, as far as we know or are able to calculate at present, no human foresight can render perfect the provision against such irregularities; and, consequently, the want in such times is a power composed of the most efficient and experienced persons, to judge whether those who seek assistance have really come into their difficulties by reason of natural causes, which human foresight cannot provide against; as it is beyond dispute that mercantile houses, by favouritism and manœuvring, obtain at times immense assistance to enable them to cover losses which have been occasioned by the most unjustifiable speculation, by engaging in a class of business which, under no circumstances, or at any time, they had a right to meddle with; and by this means they obtain relief which cannot be given to two at the same time, and is therefore certainly employed, in one case, in encouraging a class of speculation which, when carried on by numbers, so materially stimulates the evil which can be mitigated, in a measure, when due only to normal causes, and is most probably (at all events possibly) denied to a more modest and upright firm, whose

operations are affected by what they may be powerless to control.

The tribunal who should deliberate upon the course to be adopted when the mercantile horizon predicts serious changes for the worse—for these great commercial disorders never happen without those previous signs which are so surely premonitory of mischief—should be composed of men whose cautious judgment has led them successfully through the shoals and quicksands which commerce presents at all points. These men are comparatively rare, and, consequently, whether in large commercial houses or banking and financial institutions, soon work their way to the surface by the exhibition of those qualities which constitute their superiority, and which would render their selection a matter of no difficulty. By the formation of this body or tribunal, which should be composed of men who have had experience in not only banking, but all the great branches of commerce, many complicated questions, which are now tediously discussed through the leading journals, might be debated and elucidated for the public benefit.

I would propose that this tribunal be composed of at least one hundred members, each of whom would be subject to re-election every year; and that

every person engaged in banking, financial, and mercantile affairs—having attained his majority—should be entitled to one vote, irrespective of his position, means, connection, or attainments; and that his vote be not transferable. The benefit to the community generally would depend upon this tribunal being composed of members of every branch; by that, I mean men who have had wide experience in the fluctuations of every article of produce imported or exported, and also a knowledge of the chief importers and exporters, so that the banks, as a body, might, through the medium of this tribunal, receive a warning of any important change that was expected which might seriously embarrass certain houses. Those, for instance, whose suspension had become inevitable, in consequence of an immense and unforeseen fall in certain produce which they held, would have a claim to assistance—against approved security—by a proper representation of their position, provided always such applicants were previously known to be people of good reputation, and whose statements would warrant a further enquiry. In this manner much good might be effected, such precautions being taken before matters had proceeded too far. Timely assistance not only prevents the fall of

one house, but generally the almost certain fall of others engaged with it; and, what is still worse, prevents an unjust suspicion being cast upon those whose position may be perfectly sound, and deprives them of the accommodation usually afforded; and thus the disturbance grows, and assumes by degrees proportions, whose calamitous results we are already too much acquainted with.

This tribunal should have a large hall erected in the city of London—the capital of the country —where the members who were chosen could devote with ease and comfort the time required of them. An alphabetical register should be kept by officers, in which should be recorded the particulars of every firm in the city—how much capital they took into the business, and what business they were engaged in.

Such conditions as these could be lengthened, of course, with advantage; and, in justice to the trading community, some book of public reference should exist to prevent the present vague and uncertain information which is alone obtainable upon such matters.

There are many firms which look upon themselves as private altogether, and who do a business as large and larger than some banks. Their

liabilities are also frequently greater to the public, and their failure would be more disastrous than that of any bank, and yet they never publish a balance-sheet. They may go on doing a large trade for years, all the time in the most unsound condition, striving in the most unpardonable manner by new speculations to retrieve lost ground; and it is by this sort of thing that the calamitous effects of a crisis are made much more than they need be. If a tribunal, such as the one I speak of, were accessible to any member of the community, through which he could demand enquiry if he had sufficient reason to know that matters had proceeded too far, and by which he could compel any firm to produce a statement of their position without giving up his name, a service would be rendered to trade and mercantile affairs generally, the beneficial effects of which are beyond calculation. Should such a circumstance arise as that a firm had been unjustly suspected, it would remain in the power of the tribunal not only to sponge from their name the least suspicion which the enquiry might have occasioned, but to inform the public that Messrs. So & So were in every respect sound, and that their transactions were proved to have been characterised by the most unsullied

integrity. Banks and many other institutions have periodically to show their position to the public, even when organised in all respects in the most complete way yet invented, and whose operations are conducted upon those principles which do not include any speculative elements. How much more necessary must it be to establish some system for keeping a watchful check upon merchant houses which show no balance-sheet, and whose operations, in the majority of cases, are much more intricate than those of a bank, and are directed by a judgment which seldom errs on the side of prudence.

There will—I doubt not—be many who will pronounce this scheme at once impracticable, on the ground alone that the community would never submit their affairs to be investigated at the dictation of any one or more individuals, who might possibly be actuated by base motives; but I maintain, nevertheless, that the establishment of such an institution—defective as it might be at the outset—would be found, by its power to control or exclude injurious and reckless operators, of incalculable service in purifying the stream of British commerce, and would tend, in course of time, to improve the *morale* of the entire mercantile community.

CHAPTER III.

OF BANKING ACCOUNTS.

As to choosing a Banker—Of opening an Account—Of the different sorts of Accounts—General Observations.

BEFORE deciding on the commencement of business with any particular banker, a prudent man will necessarily be anxious to know something of the stability of the establishment to which he is about to commit such important trusts.

In the metropolis, where banks are so numerous and of such very high standing, a mistake can hardly be made; but in the provinces the difficulty is greater, as, excepting the larger towns, the choice is generally restricted to three or four establishments; sometimes less.

The periodical publication of accounts by the joint-stock banks furnishes a very important element in coming to a decision, although, in several notorious instances, the figures given have been utterly fallacious; still we are proud to believe

that these are exceptional cases, and that a published balance-sheet is a reliable document.

In agricultural districts the private banker is usually a landed proprietor; and from this a fair idea of his individual wealth may be formed. In manufacturing towns a trade is frequently combined with the business of a banker; and the question may fairly arise as to what portion of the resources of the bank are withdrawn to meet the requirements of the trade. It appears to us that the private banker labours under a disadvantage in competition with his joint-stock opponent—in this way, that the publication at stated times of the accounts of the latter gives confidence to the public, whilst the transactions of the former are shrouded in mystery.

With the joint-stock bank, in case of misfortune, there is the balance of capital that has not been called up to fall back upon; but the whole of the private banker's capital will doubtless have been lost ere he will decide upon closing his doors.

Again, although at some time or other a private bank may have been in possession of ample means, still, by the retirement of partners, and consequent withdrawal of their capital, its resources may be weakened to a great extent—a fact of which the

great body of customers would be ignorant; and, of course, it would be to the interest of the bank that they should not be informed.

So, again, on the death of a banker having a family, he bequeaths the business to one of his sons, and very probably the bulk of his property is withdrawn, to be divided amongst his other children—he to whom the bank descends simply getting the hive from which others have extracted the honey.

We should always distrust establishments offering high rates of interest. Such a method of doing business is only to be made profitable by travelling out of the usual safe paths; the customer who has the temerity to accept such inducements is but too likely to lose his interest and endanger his principal.

Bankers, before opening an account with a new customer, usually require an introduction, if the individual be a stranger.

The person who introduces a customer to a bank is expected to have some knowledge both of the state of his friend's monetary affairs and of his moral respectability.

One reason for this caution is very obvious, viz. the banker's own protection.

Another, which does not appear so plainly to the casual observer, is this; that the fact of a man having an account with a first-rate banker, is to a certain extent accepted as a guarantee, that, in the opinion of the banker, his customer is a person worthy of some trust; and such being the case, if bankers accept indiscriminately, and without enquiry, all accounts offered to them, the public will give them credit for precautions which they do not adopt, and will in consequence be deceived.

Bankers usually object to open accounts with executors or trustees (as such). The difficulty is, however, easily got over, by taking the names of the parties individually.

It is necessary, before opening an account in the name of a married woman, to have the written authority of the husband for so doing.

It is not considered a good thing, except under extraordinary circumstances, for commercial houses to change their bankers; nor do bankers look very favourably on customers who do business with more than one house. In the case of a very large business, it is sometimes done from prudential motives.

There are three classes of accounts with which banks have to deal, viz.:—

Credit Accounts,
Overdrawn Accounts, and
Deposit Accounts.

Of these, the first-named is by far the largest, and, in fact, the only one of which the Bank of England, and most, if not all, the London private bankers take cognisance.

It is simply an account in which the customer always has a balance standing to his credit.

Overdrawn accounts, or, as they are sometimes called, 'cash credits,' are not unusual with country bankers. They are worked in the same way as credit accounts; but the balance is always or generally in favour of the banker, who takes security from his customer, and gives him a 'limit,' beyond which he must not draw. The difference between this method and an ordinary advance, as made by London bankers, is, that in the latter case a certain sum is placed for a stated time to the customer's credit, and either repaid at the expiration of that time or renewed for a further period; but with overdrawn accounts, only the sum required is drawn, and on that alone interest is charged. Such arrangements may continue for years without the balance ever being a credit-balance.

Deposit accounts, from which banks derive a large portion of the funds wherewith they carry on their business, are sums placed at stated rates of interest with a bank, for which receipts are given, called deposit receipts. These are not transferable, and must be produced and signed on the back previous to the repayment of the money. The usual rate of interest allowed on these deposits by the joint-stock banks of London is 1 per cent. under the minimum rate of discount at the Bank of England for the time being, the banks making their profit by the margin. When any alteration is made in the rate allowed, it is usual to give notice by advertisements in the 'Times,' and other daily papers. As we before observed, the Bank of England and the London private banks eschew this business. In the country, however, the private banks (especially in the manufacturing districts, where money can generally be profitably employed in discounting) encourage it. It is not difficult to see how, in the cases of overdrawn and deposit accounts, a banker's profits are made; but when we come to consider credit accounts, it is not so obvious to the non-professional.

It may be asked, What balance will pay a banker for keeping my account? To this very natural

enquiry we can only reply by asking such questions as, What will be the extent of your transactions? how many cheques will you draw? shall you require either loans or discounts, and to what amount? Until these are answered, it will be utterly impossible to estimate what balance will be remunerative.

In consideration of this subject, it must be borne in mind that a certain portion of the balance standing to a customer's credit must be retained in the banker's hands to meet current demands; and, supposing the balance to be 1000*l.*, at least 200*l.* of that sum must be unprofitable.

Added to this we must assume that some of the nominal balance will consist of 'uncleared effects,' i.e. cheques and bills for which the money has not been received. Although cheques and bills of exchange arrived at maturity when paid in with bank-notes and coin are all placed immediately to the customer's account, it is expected that the portion of the credit consisting of those documents, will not be drawn against until sufficient time shall have elapsed for them to be cleared; and a memorandum is usually inserted at the beginning of the 'pass book' stating what time this operation will require, which will not exceed a few hours

where the cheques are payable in the same town as that in which the receiving bank is situated; if they have to be sent through the country, Clearing-house, or the post, three or four days should be allowed. Of course, notes and coin may be drawn against immediately.

By some it has been said that, with money at less than 2½ per cent., the expenses of banking will leave no margin for profit; to refute such an assertion it is only necessary to point to the usual dividends of the joint-stock banks. It is generally the case, that as money rises in value the balances in the hands of bankers decrease, and *vice versâ*; so that the low rate of interest is compensated for by the additional amount deposited; and it must be noted that, with a high rate of interest prevailing, the bad debts will increase, however cautious the banker may be.

Country banks are not affected by the changes in the money market to the same extent as those in London, as the former seldom lend to their customers at a lower rate than 5 per cent.; they do not, on the other hand, often decrease the rate of allowance on deposits below 2½ per cent. It is only in the employment of their reserves that they feel the difference; this, as with the London

banker, is balanced by the increase or diminution of deposits.

It has been estimated that the banker is remunerated if the average balance of an account is sufficient to show a profit of sixpence on each cheque drawn. Adopting this view for the moment, suppose a customer with an average balance of 500*l.* and money at 3 per cent., 100*l.* must be retained to meet current demands, leaving 400*l.* to be made use of for the purposes of the bank; this, at the rate mentioned, would give 12*l.*, so that the customer would be entitled to draw 480 cheques per annum without any charge. We cannot think this to be a fair remuneration; and, should these views be generally adopted, we believe the dividends received by joint-stock bank shareholders would speedily fall from the high rates at which they have so long stood.

By the introduction of the joint-stock banking system into London, great facilities for banking were created for those whose means would not admit of their keeping a balance large enough to meet the views of the private bankers, by making a small charge for commission where the average balance was not remunerative. Interest was then for the

first time allowed on current accounts when the balance exceeded 200*l.*

Before leaving this branch of our subject, we would address a few general remarks, which may perhaps be useful, to the large and ever-increasing class who keep banking accounts. A banker is bound to know his customer's handwriting, and for that reason, on opening a new account, he takes his customer's signature in the book kept for the purpose, in order that, in cases of doubt, he may verify any document presented for payment.

We wish to urge the importance of adhering closely to one style of signature, as a great preventive to the success of forgeries; and to protest against the fallacy that an illegible handwriting is the most difficult to imitate; experience all goes to prove the reverse; the more distinct the writing the more obstacles does it present to the forger.

On the death of a customer, the bank, previous to parting with any balance standing to his credit at his death, will require the production of the probate of the will of the deceased for registration in the bank's books, after which the balance is at the disposal of the executors. Where the deceased died intestate, the heir-at-law must produce letters of administration.

Enquiries as to the standing or means of any customer are *never* answered by bankers to private individuals; so that, to obtain information of the kind, the person requiring it is obliged to make use of his own banker. This precaution is a safeguard against malice and idle curiosity.

An order restraining bankers from parting with money is sometimes granted by the judges of the superior courts, and must be obeyed, at the risk of being committed for contempt of court.

There are various ways in which customers may save their bankers considerable time, without entailing any great trouble on themselves.

Bankers always furnish to their customers printed forms, called 'credit tickets,' which are divided into different heads, and should be filled up and taken to the bank with the cheques, &c.

All cheques and bills of exchange should be carefully examined, to see whether stamps or indorsements are required; in a word, whether they are regular.

Should a clerk or servant be sent for a chequebook or any document belonging to a customer, it is necessary to have a written order for its delivery.

The only receipt usually given by bankers is the

acknowledgment by entry in the pass book; there are, however, some exceptions to this rule.

It is always advisable to cross cheques remitted by post, if the name of the payee's banker be known, with his name; if not, with the words 'and company.' Should the cheque be delivered to the payee, it is a good plan to ask for his banker's name, and cross it.

Besides bills of exchange, of which mention will be made in a future chapter, there are various securities on which advances will be readily made by bankers.

Securities transferable by delivery, such as exchequer bills and the bonds of colonial and foreign governments, are the most available; the possession being sufficient, it is only necessary for the borrower to give a lien to the banker, who will then advance according to the value of the securities for the time being, retaining a margin for eventualities.

Government stocks, as consols, &c., are required by bankers, previous to an advance, to be transferred from the name of the customer to that of some partner or officer of the bank; this only entails the trouble of making the transfer, as the consideration is merely nominal. Many bankers

object to lend money on shares in railways or trading companies, for this reason — unless the shares are regularly transferred, the security is not tangible; and should the precaution of having a transfer executed be adopted, the lender makes himself liable for any calls the company make, and in the event of insolvency, for the debts incurred.

Dock warrants and bills of lading are frequently advanced on, but many bankers consider it an unsound practice.

Life-assurance policies are almost invariably objected to as security for advances, except as a 'make-weight.' The chief objections to be urged against them are, that the validity entirely depends on punctual payment of the premiums, and should the owner neglect such payments, the holder must in self-defence make it right, or his security is valueless. It is necessary that a life office should be informed of the assignment of any policies to any third person, otherwise, in case of death, there will probably be difficulty, if not litigation, before a settlement will be made.

When an advance is made by a banker on the title deeds of real property, it would appear to be sufficient that the borrower should write a letter stating the circumstances, and giving a lien on

the property. It may, however, be safer to require an undertaking to execute a regular mortgage if called on to do so.

A banker has no right to detain, or appropriate to the payment of an overdrawn account, property of any description which has been placed in his hands for safe custody; it must be given up to the owner on his application, although he may be indebted to the banker at the time to the full amount of the property. Nor can a banker (without the express consent of his customer) appropriate any balance realised by the sale of securities, deposited to cover a specific advance, towards the liquidation of any claim that may have arisen since such deposit.

CHAPTER IV.

CHEQUES.

What is a Cheque—How it should be drawn—As to Stamps—Post-dating Cheques—Crossing Cheques—Indorsement—Presentation—Bankers bound to pay Cheques—Exceptions—To whom the Banker is liable for negligent dishonour—Forgeries—Cheque not a legal tender—Cheque in payment of Bill of Exchange—Cheque as evidence.

CHEQUES, which are such an important part of the circulation of the country, appear to have had their origin so far back as the times of the Romans, though it is difficult to fix the exact date of their introduction. The names by which these documents were known were 'attributio' and 'prescriptio.' We cannot discover that any great use of them took place either in this country or abroad until about the year 1780, when the bankers in London adopted them instead of the goldsmiths' notes, of which they then discontinued the issue. Since that time the use of cheques has extended year by year; and although there do not exist any data by which either the

number or amount drawn may be arrived at, it must come to a total of some hundreds of millions per annum. A cheque is an order addressed to a banker by his customer to pay a sum of money on demand.

It is not necessary that a cheque to be legal should be couched in any particular form of words, although the banker, if he give due notice, may refuse to pay cheques not drawn according to his directions. The best plan is to adhere to the printed cheques, which all bankers now issue to their customers free of charge, as the use of plain paper does away with one difficulty for the forger —the obtaining possession of the blank cheque.

We believe it is now correct to say that all bankers issue printed cheques to their customers; it is, however, only within the last fifteen years that the custom has been adopted by the old-established firm of Child & Co. The place where a cheque is drawn ought to be truly stated, and the date must be that of the day on which it is issued.

Prior to 1853 all cheques were unstamped, and were illegal documents if dated more than fifteen miles from the bank on which they were drawn; in that year an Act was passed by which such

cheques were legalised, provided they bore either an impressed or adhesive penny stamp, and the drawers were allowed the privilege of making these cheques payable to 'order' instead of to 'bearer,' the effect of which will be mentioned below. This Act was constantly evaded by dating the cheque from the town on which it was drawn; it led, moreover, to endless disputes as to distance, and finally was a failure as a source of revenue. An Act which came into operation in 1858 obliged all cheques drawn by private individuals to bear the penny stamp, with the exception of those payable to 'self,' drawn at the bank counter, or paid to an authorised person for the *use* of the drawer.

This exception has been since abolished, and at present the only cheques which are legal unstamped are those of some of the Government offices, poor-law unions, and charities; the transfers passing between bankers are likewise exempted.

The stamp should be put on by the drawer, but should he omit it, the payee, or any one who presents the cheque, can legalise it by affixing a stamp. Cheques drawn out of the United Kingdom are considered by law as foreign bills, and

require to have 'ad valorem' foreign stamps. The Channel Islands and the Isle of Man are included in the word foreign.

Post-dated cheques, i.e. cheques bearing date subsequent to the actual drawing, are illegal; the drawer, payee, and the banker who knowingly pays such cheques, incur penalties of 100*l.* in the drawer and banker's case, and 20*l.* in that of the payee.*

The reason of this is obvious, as post-dated cheques if used may do away with the necessity for bills of exchange, and thus defraud the revenue of the stamp duty thereon.

The practice of crossing cheques, which is now so general, is a most important safeguard against fraud.

It originated with the Clearing-house, the clerks of which used to cross the cheques they delivered to other bankers with the name of their own house; and gradually the public adopted the system. For many years, however, although bankers used to act upon the crossing, it was not compulsory to do so; and it appears, by decisions

* There seems to be some doubt whether a post-dated cheque, if payable to 'order,' is invalid.—Byles on Bills, 8th edit. p. 16; Grant on Banking, 2nd edit. p. 15.

in the law courts, that legally a banker was obliged to pay a crossed cheque payable to bearer, although presented at the counter by a private individual.

In the year 1856 an Act was passed by which bankers were compelled to refuse:—1. Cheques crossed 'and Co.' if not presented through *a* banker. 2, Cheques crossed with the name of a banker, unless presented by that banker; and it follows as a matter of course that cheques crossed to two bankers must share the same fate. By the same Act the alteration or erasure of a crossing is a forgery.

We have seen that by the Act of 1853 the drawer is allowed to make a stamped cheque payable to 'order;' the effect of this is, that the payee, before presenting it for payment or otherwise negotiating it, must indorse it in the same way as a bill of exchange.

Should the drawer have made any mistake in the orthography or style of the payee, this latter must in indorsing copy the error; he can add the correct name beneath.

Providing an indorsement agree with the filling up of the cheque, the banker will pay it; and should it afterwards appear that the indorsement

was a forgery, he will not be held responsible for not discovering it.

Bankers will pay cheques indorsed per procuration; although the legality of such practice was doubtful for a time, the most recent decisions establish it.

The payee of a cheque is bound to present it in 'reasonable time;' and according to late judgments it appears that the limit is the close of business hours on the day following the receipt of the cheque. If he holds it longer than this, he does it at his own risk, as to the insolvency of the banker as well as the drawer; also in case of the death of the latter, the banker would decline to pay the cheque.

Non-presentation of a cheque does not release the drawer from his liability, unless he has actually sustained loss from the holding of the cheque, which he would do in the following hypothetical case:

A gives a cheque on B to C, who feeling satisfied with the stability of A, does not present the cheque for several days, during which time B fails, having assets of A's in his hands. Here C holds the cheque at his own risk; had he presented it on receipt, or within a day or two, it would have been

paid. For A to bear the consequences of C's neglect would be obviously unjust, for by the non-presentation of the cheque his balance in B's hands is larger than it would otherwise have been, and his loss by the failure would be thus increased by the amount of the cheque.

Had A's been an overdrawn account he would not have been injured by C's conduct, the only effect of which would be that A was indebted to B's assignees to a lesser amount than he would otherwise have been.

The holder of a cheque, not being the payee, is bound to present it during business hours not later than the day following its receipt; otherwise he releases the person from whom he received it, in the event of the insolvency of the bank or the dishonour of the cheque.

For this holder (in case of insolvency of the bank) to be able to charge the drawer, it is necessary that the cheque, whatever number of hands it may have passed through, should be presented in the same time as if it had remained in the original payee's possession. Here, however, if the drawer has received no injury from non-presentation, his liability is not cancelled.

Respecting a cheque drawn on a bank at a dis-

tance from the place where the payee resides, it would seem sufficient that the post of the second day should be the medium of presentation.

Bankers are bound to honour the cheques of their customers if the funds in their hands are sufficient, unless the time that has elapsed since the money was paid in, has been too short for the necessary entries to be made; in which case no action for damages would lie.

Should a banker after knowledge of an act of bankruptcy pay a customer's cheque, he is liable to an action by the assignees for the recovery of the amount.

A banker must not pay the cheque of a customer of whose death he has received intelligence. A banker would be justified in refusing to pay a cheque, although he may have funds sufficient, providing that those funds have been placed in his hands to meet specific claims, of which the cheque in point forms no part.

In the event of the dishonour of a cheque through the negligence of the banker, he would be liable to an action for damages to the drawer for the injury to his credit; but the payee or holder would have no remedy against the banker.

When a banker receives instructions from a

customer not to pay a particular cheque, he is held harmless. It should be mentioned, however, that the holder, if he has *bonâ fide* given value for it, can recover the whole amount from the drawer.

Bankers will not pay without enquiry cheques that have been long drawn; but no stated time seems to have been laid down beyond which they ought to refuse payment. It would therefore appear to be left to their discretion to act as the circumstances of each case seem to warrant. In practice a banker would write to his customer for instructions before paying a cheque dated more than twelve months previous to presentation.

A banker cannot debit his customer with a forged cheque, nor for one that has been fraudulently altered, unless the drawer by his way of filling it up has facilitated the alteration. The following case, taken from 'Byles on Bills,' p. 24, will best explain this:—

A customer of a banker on leaving home intrusted to his wife some blank cheques, signed by himself, to be used in the business when requisite. She filled up one with the words fifty-two pounds, two shillings, beginning the word fifty with a small letter in the middle of a line. The figures 52 : 2 were also placed at a considerable distance

to the right of the printed £. She gave the cheque to her husband's clerk to get the money. He, before presenting it, inserted the words 'three hundred' before the word fifty, and the figure 3 between the printed £ and the figures 52 : 2. It was paid by the bankers for £352 2*s*. Held, that the improper mode of filling up the cheque had invited the forgery, and, therefore, that the loss must fall on the customer and not on the banker.

A cheque is not a legal tender, and for that reason may be objected to; but having been accepted by a creditor, he cannot proceed for his debt until he has presented and been refused payment for the cheque.

It is usual where a cheque has been taken in payment of a bill of exchange not to part with the bill, but to attach it to the cheque, so that the drawer receives both together from his bankers.

The mere production of a cancelled cheque is not sufficient evidence of the discharge of a debt; it is necessary to prove that the cheque has actually passed through the creditor's hands.

A cheque is not evidence of the loan of money from the drawer to the payee; nor can a banker produce cheques paid by him to prove an advance to his customer.

It is the practice of London bankers to return the cheques and bills paid by them on behalf of their customers with the pass books in which the debits are entered. We believe that country bankers generally do not adopt this rule, but retain cheques, subject, of course, to inspection.

The law on the subject seems to be, that a paid cheque is the absolute property of the customer, by reason of his having paid for the stamp directly, and indirectly for the cheque, by the profit on his account. Now the law also says that a banker's books are not evidence in his favour, although they may be against him.

The paid cheque being returned, and the banker's books not evidence, the question may arise, how, in the event of a customer disputing the payment of a particular cheque, and alleging that all his paid vouchers had been destroyed, the banker would be able to rebut this statement, having already parted with both the order to pay and the receipt for the money?

CHAPTER V.

BILLS OF EXCHANGE.

The use of a Bill of Exchange—The form of drawing—Respecting alterations—Agreement of body with figures—Bills of Exchange drawn in sets—Presentation at maturity; before maturity; after maturity—Mode of proceeding with Dishonoured Bill—Notation of protest; necessity for, and security of—Acceptance; acceptance contrary to tenor—Stamps, inland and foreign—Indorsements—Bankruptcy of acceptor—Statute of Limitations, as affecting Bills of Exchange—Payment—Cases in which a Banker is justified in refusing payment of a Bill or Note—Discounting Bills—Indications in case of need—The 'copy' of a Bill.

1. *The Use of a Bill of Exchange.*

A BILL of exchange was employed, in the first instance, simply as a letter of credit from one country to another, much more extensive in form than the document used in the present day, and containing an amount of matter which time has gradually reduced to its present more business-like dimensions. This mode of settling accounts between merchants in distant lands, was found to be of infinite use, as it obviated the great risk of

carrying large amounts of specie, and told at a glance the value of the document, thereby considerably facilitating pecuniary transactions in commercial intercourse. These bills of exchange, after having done duty from one country to another, changed hands frequently before they were finally disposed of.

Bills of exchange, on being introduced into this country, were discovered to be of greater use than merely as the representatives of so much money, as they could be instrumental in effecting the assignment of a debt, and as such are now recognised by the common law. Not only was the debt transferred, but its value was enhanced, inasmuch as the debtor himself accepted to pay a *certain* amount, from which engagement he could not afterwards depart. These bills of exchange were allowed only among merchants at first; but, as commerce increased, they became common with all classes of traders. In the present day, the extent to which bills of exchange are used may be conceived from the fact of their being by far the most important documents employed in commerce, many hundreds of millions sterling being circulated annually in this country in the form of bills of exchange.

2. *The Form of Drawing.*

In drawing a bill or note the law does not compel the maker to use ink; the document would have the same effect if written in pencil; but the liability to obliteration would prevent the use of a pencil, except in cases where no other material was at hand. There are usually three parties to a bill of exchange: 1st, the drawer; 2nd, the drawee, who, on the completion of the document, becomes acceptor; and 3rd, the payee—the person to whom the amount specified in the bill or note is to be paid, to his order or to the bearer, as the case may be. Frequently, the drawer is also the payee. When the payee's name is followed by the word 'order'—which is the most customary method—an indorsement becomes necessary previous to the instrument changing hands. The word 'bearer' coming after the payee's name, renders any writing unnecessary in the event of transfer—'bearer' simply implying anybody. It is very unusual to draw a bill of exchange payable to 'bearer,' although no legal objection can be raised against it.* It is scarcely necessary to

* In case Rex *v.* Randall, Eyre, C.B., ruled that a bill payable to blank or order was waste paper. In Minet *v.* Gibson, the majority of the judges held an opposite opinion.

explain that the 'holder' of a bill is the person in actual—or, as Sir J. B. Byles says, in 'constructive'—possession, and legally entitled to recover the amount specified, from the parties thereto.

Inland bills of exchange are drawn on demand, at so many days', or weeks', or months', sight or date, as the case may require, or payable on such a day named therein; in all cases, excepting with the paper of the Bank of England, carrying three days' grace. Where no time is named, the document is payable on demand.

Foreign bills are the same in form as inland bills, but they will sometimes be drawn at longer dates, according to the distance of the countries from one another, between which they are to operate; the tenor, however, depends upon a variety of circumstances, and may be extended to almost any period, provided the parties thereto are agreed. It will stand to reason that the longer a bill has to run the less will its value be, and the more difficult its negotiation.

A note drawn payable by instalments is held good, and the holder is protected by the statute 3 & 4 Queen Anne; three days of grace may be demanded for every instalment. The term 'usance,' in connection with foreign bills, denotes the cus-

tomary tenor at which bills are drawn, depending upon the distance between countries; where 'usance' is half a month, the time is fifteen days.

A 'sola' bill of exchange is a single bill, as distinguished from bills drawn in 'sets.' In drawing a bill of exchange, care should be taken in the description of the payee, that he be not confounded with another of similar name. When a bill is drawn by procuration, the authority to draw is admitted, but not to indorse. If a bill miscarry—unless payable to 'bearer'—the unlawful possessor can neither acquire nor convey any title thereto.

The power given to another person to draw, accept, or indorse, by the term 'per procuration,' is recognised by the law only to a limited extent. It is held that any person giving value for a *bill* drawn, indorsed, or accepted 'per procuration,' without inquiring as to what extent such authority has been given, does so at his own risk, and will lose the amount if the authority be unauthorised. With cheques, however, the contrary has been maintained, and we are of opinion with justice. In the despatch of business it is quite impossible for a banker to ascertain the genuineness of a 'per procuration' indorsement upon a cheque, without causing unreasonable delay; in addition to which,

the banker should not be made to suffer for the negligence of others, or be compelled to take the responsibility of the risk, which other people must run, of engaging dishonest and untrustworthy persons to assist them with their business. In all such cases great care should be taken to define the extent of the authority given, as, permission having occasionally been given to indorse, a jury might consider themselves justified in inferring that the authority was general. A bill drawn to the order of one person and indorsed by another of similar name, is held to be a forgery. Promissory notes drawn upon forms having printed dates, and payable to bearer on demand, are subject to a penalty of 50*l*. In drawing a bill, it is better, although not absolutely necessary, to state the amount in figures as well as in writing. If the body and figures differ, the body will be taken to be the amount for which the bill is made payable. A bill may be drawn at any tenor without objection. Drawing a bill after so many days' sight, literally means after legal acceptance, and must not be taken to mean a mere exhibition of the document to the drawee. When a bill is drawn at so many months' sight or date, the month must be understood to be calendar. A bill drawn at so

many days' sight, must be computed exclusively of the day on which it is sighted, and inclusively of the day it falls due. A bill drawn, indorsed, or accepted in blank by an infant, does not bind him, if it be filled up after he is of age.

The 'grace' allowed upon bills varies considerably in different countries. Three days are allowed in England, Scotland, Ireland, North America, Vienna, Bergamo, and Berlin. At St. Petersburg, ten days on bills drawn after date, and on bills presented after they are due; three days on sight bills. Parts of Brazil, Bahia, and Rio, fifteen days. Frankfort four days. Leipsic, Naumburg, and Augsburg, five days. Cologne, Breslau, Nuremburg, Portugal, Antwerp, Venice, Amsterdam, Rotterdam, Middleburg, Königsberg, and Dantzic, ten days.* Hamburgh three days, of which the day the bill falls due is one. At Stockholm there are no days of grace, but it is customary not to protest until the day after the due date. The above periods of grace said to be allowed by some foreign countries will be found to be the exception and not the rule, where the number of days exceeds two or three, as such long periods of grace are associated with obsolete systems which have

* Days of grace are abolished altogether in France.

gradually disappeared as the principles of political economy have become better understood.

It is not customary to allow grace on bills drawn 'at sight,' although the legality is still a disputed point. Bills or notes on demand carry no grace; an instrument made payable on demand is rightly termed a draft. It must be remembered that in computing bills drawn in Russia or Turkey, in consequence of their adherence to the old style, twelve days must be allowed. It is held that a bill or note, neither payable to order nor bearer, is *not* a negotiable instrument, though it remains valid as a security between the original parties.

In drawing a bill the employment of the words 'value received' are not—as supposed by many—essential parts of a bill, as made between drawer and acceptor, or between drawer and payee. Without the drawer's signature, a bill, even if it be accepted, is useless. Although custom demands it, the law does not compel the drawer to sign in any particular part of the document. A person unable to write may sign by his mark properly witnessed. If the drawer of a bill attach his signature to a blank form, he is responsible and liable for anything that may be filled in after, within the amount carried by the stamp. In case of a

bill of exchange being dishonoured, and an action brought against the drawer, he cannot be proceeded against if he can prove that the document was not presented at the place where the drawee had originally accepted it payable. Direction as to where payable may be made in any part of the bill, provided the acceptance be appended. In the case of a promissory note, this is not applicable, for if the place of payment be noticed merely in a disconnected part of the document, in the form of a memorandum, it has been held to be a fatal misdescription; it should be stated in the body, and thereby become part of the contract. Where an instrument is drawn in a careless way, in the form of a promissory note, and accepted, and indorsed as a bill of exchange, the holder may treat it as either, at his option. A bill made payable to the order of the drawee, it is hardly necessary to state, is not a bill of exchange. An instrument instructing the drawee to pay without accepting, is a legal bill of exchange.

Bills and notes demand payment in specie or Bank of England notes only; other descriptions of goods are not considered payment, and if drawn to include other than specie payment, are invalid. If drawn subject to additions or deductions of

interest, the document is of no use, even for the original amount. Bills or notes, the payment of which depend on any uncertain event, such as marriage, or the realisation of sums of money consequent upon any speculation, are not countenanced by the law, and are useless as evidence. In case of a memorandum being added after the completion and handing over of the document, by way of defeasance, it is looked upon as a separate and independent agreement, and must have a proper stamp; but it must be remembered that an agreement must be only between the original parties to the instrument, and that any collateral arrangement will be of no avail as regards an interference with the progress of the bill or note. Any oral agreement is useless against a written contract.

3. *Respecting alterations.*

A bill of exchange or note ceases to be of any value after having been altered in a material part, irrespective of who may have made such alteration. Persons holding such documents are considered bound in obedience to the laws of society to uphold them in their integrity both as regards their own acts and those of other people who may in the

course of business hold such instruments in their hands for the account of their employers.

An alteration made by the drawer or other holder, without the consent or knowledge of the acceptor, is considered a full discharge to the acceptor. The acceptor pledges himself to pay at a certain place; any alteration of that, without his knowledge, releases him from his original contract. A person indorsing a bill so altered to another person ignorant of the alteration, cannot sue his indorser upon default; the acceptor not being held responsible for a change from the place where he had undertaken to pay. Any alteration made with the consent of an acceptor does not invalidate the instrument, but an alteration made in a material part of the document upsets it under the Stamp Act, as by such alteration it becomes a new instrument requiring a new stamp. Material alterations are—in the date, tenor, sum, making negotiable an instrument which before was not so; altering the words 'value received,' so as to mean any other consideration—all these avoid the bill under the Stamp Act. An alteration before the delivery of the instrument will not vitiate it; nor will the alteration of any slight error which may have

occurred by which the original intention of the maker is furthered. Either payee or indorsee having given value for the bill, an alteration, though *before* acceptance, avoids the document. An alteration made at any period by the drawer or payee, though it renders void the instrument, does not extinguish the debt. An alteration by an indorsee not only liberates all the antecedent parties, but extinguishes the debt due to the indorsee by the indorser. The renewal of a bill consequent on any alteration, does not render liable parties to the original, unless duly apprised thereof.

4. *Agreement of Body with Figures.*

In cases of difference between body and figures, it is held that the writing in the body—being, in fact, the principal substance of the instrument—should be presumed to be the amount intended, as it is more probable that an error would occur in the figures. A banker having a bill presented thus differing, and holding no advice—which is frequently the case—would be governed in his actions by the nature of the alteration.

5. *Bills of Exchange drawn in Sets.*

In purchasing bills of exchange in one country to remit to another, it is customary to draw two or three bills to a set; but more must be furnished if demanded. In most cases, only two are required. However many bills may be drawn in a set, they compose but one bill. All the parts of a set must be numbered alike, so that each has undoubted reference to the other part. Each of such parts contains the written condition that it will be paid, provided only that no other part of the same bill has been already paid. The mode of dealing with the parts may differ, according to circumstances. A purchaser may not intend to employ the 'second' at all, but only to hold it in case the 'first' should be lost, in which event the 'second' answers his purpose as well as the 'first.'. The 'first' may be forwarded for acceptance, and the 'second' indorsed away for value, subsequently finding its way to the accepted 'first,' to which it will be attached, and both paid at maturity. The payment of any one part extinguishes the whole. The parts of a bill not being written so as to show undoubted reference one to the other, may oblige the drawer to pay more than one part in the event

of anything going wrong. A drawee will, of course, take care to accept only one part, and always to obtain possession by payment of such part as he may have accepted, otherwise he may have to pay twice.

6. *Presentation at Maturity—Before Maturity—After Maturity.*

It is not necessary, on the arrival of a bill at maturity, to present it to the acceptor personally. It is his business to provide for it at the place indicated. It is absolutely necessary that the bill or note should be presented, when due, at the place indicated, otherwise legal proceedings will be of no avail against the indorsers. The acceptor or maker, however, still remains liable; but a person who guarantees the payment of a bill is *not* released by the non-presentment. A reasonable time is allowed to present a bill payable on demand. If it be received one day, it is not necessary that it should be presented until the day after. A promissory note, payable on demand, may be taken as an exception to this rule, as it is frequently given as a continuing security, carrying interest. It is not, therefore, considered sufficient neglect to discharge the indorser, if it be presented within

a reasonable time after its reception. Where bills are made payable at private houses, with no recognised hours of business (such as bankers have), as late as eight o'clock in the evening is not considered unreasonable by the law. If a bill be drawn, payable at a certain place, even though it be different from that indicated by the acceptance, presentment must be made there, in order to charge the drawer. If a bill be made payable at one of two places, presentment at either will suffice. Proof of presentment at the place indicated, though no one were in attendance, neither did the acceptor live there, would suffice. In the case of a promissory note, the place of payment must be mentioned in the body of the document, so as to be a part of the contract. Presentment at a place indicated in a detached memorandum will not suffice, and is held to be fatal to the document. Circumstances, however, may exist in which non-presentment, when due, will not discharge the antecedent parties—a bill seized under an extent, for instance, as laches cannot be imputed to the crown. Neglect to present, when due, discharges the antecedent parties —the only recourse being against drawer and acceptor. Should the acceptor, however, have

failed since the day of maturity, the drawer is also released, unless the holder can satisfactorily prove that, had the bill been presented at maturity, it would have been refused for a sufficient reason, such as no effects, no orders, nor advice.

7. *Mode of Proceeding with Dishonoured Bill.*

In case a bill should not be paid when presented, it is customary and necessary to leave a written notice, containing the particulars of the bill, so that at a later period of the day the acceptor may procure the funds necessary to meet the bill, and prevent its being protested. Notice of dishonour may be given by the holder's agent or attorney, and in his own name stands good. Notice of dishonour should be given to each indorser, each being entitled. The drawer of a bill, when payable to a third party, is entitled to notice. Neither the drawee nor acceptor of a bill, nor the maker of a promissory note, is entitled to notice. It is safest for the holder to give notice himself to all the indorsers; as, if he only give notice to his immediate indorser, and it is not regularly transmitted to the antecedent parties, they are discharged. It is also necessary that there be no laches in the circulation of the notices, no more

than one day being allowed between each, as any neglect on the part of one indorser is not compensated for by extra diligence on the part of another. Laches committed by any indorser discharges all the antecedent parties. If the party be dead, notice must be given to his personal representatives. Where a firm or number of people are jointly liable on a bill, notice to one is sufficient. Notice of dishonour need not be given when a bill is drawn on an insufficient stamp, nor is it necessary to the indorser of a promissory note not negotiable. A promise of part payment, or an acknowledgment of liability, will be evidence of notice.

8. *Notation of Protest—Necessity for, and Security of.*

Noting bills of exchange and promissory notes, as is customary among bankers and merchants at the present time, is a different operation from the 'notation of protest,' as regards foreign bills of exchange. The mere 'noting' is a minute made by the notary, an officer appointed by the Archbishop of Canterbury, and whose appointment is registered and subscribed by the Clerk of Her Majesty for Faculties in Chancery.* Noting is

* The first instance of a woman being appointed as a 'Notary public' occurred lately at Chicasaw County, Iowa.

recognised by the law as the preliminary step to the protest, and is, strictly, a part of it. At the same time, bills are noted when no protest is intended. In a case of legal proceedings against parties to a dishonoured bill, the notary would be considered an essential witness of the presentment and dishonour. The minute of the notary, which is attached to the bill, is satisfactory evidence of the document having been duly presented, either for payment or acceptance. The notary is a person conversant with such transactions, and is considered a qualified person to direct the holder as to the course to be pursued. With respect to the charges, it appears that, according to the resolutions passed at a meeting of some of the notaries belonging to the city of London, which was held at the George and Vulture Tavern, on July 1, 1797, the following charges were agreed to, which were approved by the Bank of England:—For bills payable or to be accepted by persons living within the old walls of London, 1*s.* 6*d.*; beyond the old walls, and not farther than certain boundaries known to the notaries, which it is scarcely needful to specify at length, 2*s.* 6*d.*; beyond such boundaries, and not off the pavement, 3*s.* 6*d.*; every mile after leaving the pavement, 1*s.* 6*d.* additional.

Bills protested within the old walls of the city of London, inclusive of a 4*s.* stamp-duty, and exclusive of noting charge, 6*s.* 6*d.*; without the old city walls, under the same conditions, 8*s.*

For all acts of honour within the walls upon any one bill, 1*s.* 6*d.*; without the walls, according to the charges before mentioned for bills which will cause the notary to proceed beyond the boundary of the old walls of the city of London.

It was not allowed by the law to recover the notarial charges against the acceptor unless special damage was made in the declaration; but under an Act, 18 & 19 Vict., the expenses of noting may be recovered. The protest of a foreign bill is begun the day it falls due; but such custom does not exist everywhere, as in many countries no steps are taken at all until the evening of the second day, which is sufficient to protect the holder. All inland bills are not protested until the second day, or the day after the bill falls due. The protestation of foreign bills is customary among nations, as regulating international transactions. It affords undoubted proof of dishonour to the drawer, without which evidence he would have to rely upon the representation of the holder. The acts of a public functionary are credited by foreign Courts,

and a bill protested under the seal of a foreign notary will be received as evidence in our courts of the dishonour of a bill payable abroad.

A foreign promissory note need not be protested.

In the absence of a notary-public, a protest may be made by any inhabitant of the place in the presence of two witnesses.

The form of a protest is a solemn declaration made under a fair copy of the bill, stating that payment or acceptance has been refused; assigning the reasons, if any, and that it is therefore protested.

A bill also may be protested for better security. Where the acceptor becomes insolvent, and his credit is publicly impeached before the bill falls due, the holder may employ a notary to demand better security, and, on refusal, the bill may be protested, and notice may be sent to an antecedent party; but no proceedings can be taken until after the bill has fallen due. A second acceptance may appear upon a bill for honour, but *not* without the intervention of a protest. Her Majesty's consuls residing abroad are empowered to do all notarial acts; also attorneys residing more than ten miles from the Royal Exchange may be admitted to practice as

notaries. On occasions when a bill is refused acceptance, or is protested for better security, any person may accept for honour 'supra protest,' the form of which is as follows:—The acceptor, 'supra protest,' must appear personally with a witness before a notary-public, and declare that he accepts the bill for the honour of drawer or indorser, and that he will meet it at the appointed time, when he has to accept the bill 'supra protest' in the usual way in favour of whoever the person may be. When the acceptance 'supra protest' is made without mentioning the name, it is considered as made for the honour of the drawer.

9. *Acceptance.*

The literal meaning of the word acceptance, as applied to bills of exchange, signifies an engagement on the part of the drawee to meet the bill in money when it falls due; which engagement generally appears across the face of the instrument. But a bill of exchange may exist without an acceptance. An instrument drawn by A. upon B. directing him to pay C. a certain sum at a given time, without acceptance, is a bill of exchange. A bill must be accepted by the intended drawee, except for honour. A partner by accepting binds

his co-partners. A retired partner is only liable on those bills signed while he remained a partner. If a bill be drawn on several persons not in partnership, all must sign; if not, it may be treated as dishonoured; but acceptance will be binding on those who have accepted.

If any person be rash enough to accept on a blank form, he is liable for any amount which the stamp will cover. A written or oral promise to pay or accept an existing foreign bill, is considered at common law an acceptance. The holder of a bill must not agree to a qualified acceptance without giving notice to the previous parties; if such a proceeding takes place without their consent, they are discharged; but the holder must neither protest nor give notice of dishonour, as he thereby precludes himself from recovering against the acceptor.

Acceptances may be made conditionally; such, for instance, as an agreement to pay the bill when certain monies were realised. A bill accepted for a part of the sum for which it was drawn is held good, and may be sued on *pro tanto*. The acceptance of a bill by the drawee may be cancelled at any time, provided the bill has not been delivered or the fact of acceptance been made

known to the holder. The cancellation of an acceptance by the acceptor's banker does not render the banker legally liable, if it can be proved that due care was taken. The cancellation of the acceptor's name by the holder is equivalent to a discharge. The acceptor of a bill, when it has once been delivered, is supposed to have satisfied himself that all is right, and cannot withdraw on the plea of the drawer's signature being forged; he also admits the capacity of the payee to indorse, and cannot set up the infancy of the payee, or the fact of the drawer being a married woman, as a plea.

Care should be taken also as regards a bill, being drawn by a married woman, as the husband can sue or indorse; the consequence of which may be that the acceptor will be compelled to pay the bill twice.

If an acceptor die before the maturity of a bill, it must still be presented for payment; if necessary, demand must be made at the executor's place of abode, and, on refusal, must be protested.

10. *Acceptance contrary to Tenor.*

A bill may be protested for acceptance contrary to tenor; that is, if it be accepted for a longer

date than is mentioned in the bill. Acceptance may, however, be taken, whichever way the drawee accepts, as a second protest may be made for non-payment at the expiration of the time mentioned in the bill. No one can discharge the acceptor of a bill except the holder or some one authorised by him.

11. *Stamps—Inland and Foreign.*

It will be unnecessary here to go into the origin of stamps, and the changes that have taken place, as they have from time to time appeared on bills of exchange and promissory notes; suffice it to explain the custom of the present time. It may, perhaps, be advisable to state that stamps were first brought into use in the year 1782. Bills drawn for the expenses of the army and navy, or for the transfer of money from one bank to another, require no stamps. Inland bills of exchange are subject to an *ad valorem* duty, denoted by impressed stamps. The tenor of a bill does not affect the stamp duty, except when payable on demand, then the bill requires a penny stamp irrespective of the amount for which it is drawn. Foreign bills or notes, whether payable on demand or otherwise, are subject to an *ad valorem* duty denoted

by adhesive stamps. A bill not duly stamped is no evidence in law or equity; but it cannot be held as a defence, in case of forgery, that the instrument was unduly stamped. A bill or note drawn to carry interest does not necessitate the employment of a higher stamp than was required for the amount actually specified at the commencement, although interest be received from a day prior to the date of the instrument. A bill or note bearing a stamp of greater value than is necessary (if of the proper denomination) is valid. It is necessary that all unimpressed stamps should be cancelled by the date, and the initials of the person affixing them. A promissory note which amounts to a mortgage, may be impressed with the mortgage stamp after it is made.

12. *Indorsements.*

An indorsement should always appear at the back of the instrument. Payment of a bill or note, however, need not be refused on account of the indorsement appearing on the face, as it has the same effect legally. An indorsement is a conditional contract on the part of the indorser to pay the immediate or any succeeding indorsee, in case of the acceptor's or maker's default. On

indorsing a bill or note to another person, care should be taken to spell the indorsee's name correctly, as much unnecessary delay occurs in business for want of this precaution, it being presumed that it is not the person intended when the spelling of the name differs. The mis-spelling of an indorsement does not necessarily avoid the instrument. A payee indorsing a bill not negotiable is liable to his indorsee; for each indorser takes the place as it were of a new drawer. It seems, however, that the bill not being negotiable, destroys the stamp, and the indorsee cannot acquire a right without a new stamp, which is contrary to law. The indorsement of a note—whether negotiable or not—by a person to whom it has not been transferred, does not render him liable on his indorsement; for though each indorser of a bill may be treated as a new drawer or maker, and in that capacity requires notice of dishonour, yet the indorser of a note cannot, without altering his situation for the worse, be treated as the drawer or maker of the *note*, as he thereby loses his right to notice of dishonour. A bill payable to order cannot be transferred without indorsement. An indorsement may be either special or

blank; the former is when the indorser indorses the instrument to another person, who must affix his signature if it be intended further to negotiate it, or to receive the contents at maturity; the latter, when the indorser merely signs his name, after which it is payable to bearer. No particular form of words is necessary to constitute an indorsement. If the number of indorsements exceed the limit of paper an additional slip may be attached, which becomes part of the instrument, and requires no further stamp. The French call this additional slip an *allonge*. If two persons are made payees of a bill, not being partners, they must both indorse. Neither an indorsement nor an acceptance is complete before delivery; giving in charge to a servant would not be considered a legal transfer of the property, but to a postman it would. It has been held that if there be a written, or even verbal agreement between a first indorser and his immediate indorsee, that the indorsee shall not sue the indorser, but the acceptor only, it would be a good defence on the part of the indorser in the event of such agreement being broken; it would be unadvisable however, under any circumstances, to have only parole evidence of such an agree-

ment. A transfer by indorsement gives a right of action to the indorsee against all persons whose names appear on the bill, in case of default of acceptance or payment. If a payee transfer a bill without indorsing, the holder has no remedy in his own name against any one, but the person from whom he received it; but if it can be shown that the bill was delivered purposely without being indorsed, when it was intended that it should be indorsed, an action may be maintained against the indorsee or his personal representatives by a bill in equity, to obtain indorsement. A person making a trustee the depository of a bill of exchange to be used for certain purposes, should show in the indorsement to what purpose it was to be applied, which is termed a 'restrictive indorsement.' The transferer of a bill payable to bearer, and consequently without indorsement, does not become liable in the event of the instrument being dishonoured, as it is held to be a *bonâ fide* sale *primâ facie*, carrying no evidence of antecedent parties. All documents payable to bearer circulate as cash. An indorsement may be made before the bill is drawn, in which case the indorser renders himself liable for any amount within the stamp. A promissory

note, payable on demand, is not considered overdue, nor can any interest be recovered on it unless there is some evidence upon it of its having been presented and refused payment. As we have before stated, it may be indorsed from hand to hand as a continuing security. It is held that if a bill be paid before it is due, it may be indorsed over, and remain a valid security in the hands of a *bonâ fide* indorsee, but a bill paid at maturity cannot be reissued. The payment of a bill before it is due does not extinguish it, any more than if it were discounted. In case of partial payment at maturity, the holder cannot recover more than the balance of the acceptor. A bill or note cannot be indorsed for part of the sum remaining due to the indorser upon it, as it would cause a plurality of actions against prior parties, and would be contrary to the custom of bankers and merchants; but if a bill or note be indorsed, or delivered for a part of the sum due upon it, and the limit is not specified on the instrument, the transferee is entitled to sue the maker or acceptor for the whole amount, and becomes the trustee of the transferer for the surplus. If a bill has been paid in part for the acceptor, or drawer by an agent,

it may be indorsed for the remainder due. A release at maturity is the same as payment at maturity, and extinguishes the bill; but a premature release of a party liable on the bill, does not discharge the releasee as against an indorsee for value without notice. Where a holder has died, having only signed his name, without delivery, his executor cannot complete the indorsement by delivery. A married woman acquiring a right to a bill or note, either before or during marriage, the husband should indorse. The indorser of a note places himself in the position of a surety to the maker, and thereby renders himself liable in case the maker cannot pay. An indorser of a bill not negotiable, renders himself liable to be sued by his indorsee, the indorser being the new drawer, and by his act having deprived his indorsee of the right to sue the acceptor or maker. An indorser may, however, enter into an agreement with his indorsee not to hold him liable, in which case the indorsee cannot sue; but a subsequent indorsee, unless having had due notice of the agreement, may sue. The holder of a bill cancelling an indorsement intentionally, discharges the indorser. A person having twice indorsed the same bill, can-

not, as a rule, sue the intermediate indorsers. If a man commit a breach of trust by indorsing to a third person a bill indorsed to him for a particular purpose, the indorsee, cognizant of the breach of trust, cannot sue the real owner of the bill; but, on the contrary, the owner may bring an action to have the bill restored. A person taking an overdue bill renders himself liable to anything that may happen in connection with the bill; being overdue it is said to come 'disgraced' to the indorsee. A drawer or indorser taking up a bill at maturity, may, by indorsing it to another person, transfer the right to sue on the bill. The person having possession of a note, part of which has been already paid, can only indorse for the balance,

Indorsement by executors or administrators answers the same purpose as an indorsement by the deceased.

13. *Bankruptcy of Acceptor.*

When an acceptor becomes bankrupt, the holder can claim a dividend under the commission; for, on being made bankrupt, the acceptor is discharged by the law. Upon the same principle, the acceptor, being discharged at the suit of the indorsee,

under the Insolvent Act, the indorsee has his remedy against the drawer. Where the holder agrees to a composition, the indorsers are discharged.

14. *Statute of Limitation as affecting Bills of Exchange.*

The Statute of Limitation does not destroy the debt, but only bars the remedy. The period beyond which no action can be brought is six years. As regards bills of exchange, the limitation dates from the time the bill falls due. When a bill is on demand, it is supposed to be payable immediately; therefore, the statute runs from the date of the instrument. If the person against whom an action was brought were beyond the reach of the law—as, for instance, an infant, a person imprisoned, or out of the country, &c.—the Statute of Limitation would date from the time such person became amenable to the law. A foreign statute of limitations is no defence in an English court in an action on a foreign contract, as the statute affects the remedy and not the construction of the contract. When the holder of a bill has allowed the Statute of Limitation to run out, and transfers it, the transferee is debarred from bringing an action; for he, being the trans-

feree of an overdue bill, stands in no better position than the transferer. When a bill is made payable by instalments, in case of default of any one instalment, the statute dates from the first default against the whole amount. An action brought by an administrator on a bill would commence from the date the letters of administration were granted, and not from the time when the bill fell due. A note (say thirty days after sight) is not open to an action until the expiration of that period after the exhibition to the maker; but on a 'demand' note the statute would run from the date of the instrument, in the same way as with a bill.

It must be remembered that an acknowledgment will bar the Statute of Limitations; that is to say, the six years begin to run from the date of such acknowledgment.

15. *Payment.*

Payment must be made to the rightful holder, as payment to any other person does not discharge the acceptor. In the case of a banker crediting his customer with an immature bill, which on its arrival at maturity is dishonoured and not returned to the customer, the banker renders himself liable for the sum, as he not only credited his client

with the amount, but gave him to understand that it was paid. There are, however, instances in which payment to a wrongful holder is protected; where, for example, a bill or note is made payable to bearer, or becomes so by an indorsement in blank, a *bonâ fide* holder may demand payment, and the payment is protected, provided there are no indications of carelessness on the part of the banker, and no circumstances to arouse suspicion; for the law, as a general rule, decrees that, when one of two innocent persons suffers at the hands of a third, the one causing the loss must sustain it. As regards bills of exchange and notes, the law in respect of forged indorsements steps in in favour of the public, and with cheques in favour of the banker. A bill or note, not payable to bearer, but transferable by indorsement — a transfer taking place by forged indorsement, the payer is liable. A bill is not finally discharged until paid by, or on behalf of the acceptor; and a note by, or on behalf of the maker. It was held formerly that part payment by the drawer was a partial discharge to the acceptor, but it is now decided that payment by the drawer is no plea, but simply converts the holder into a trustee for the drawer, when the holder afterwards recovers of the acceptor. Pay-

ment by the drawer of an accommodation bill is a complete discharge. A bill made payable by the acceptor at his bankers, and taken up by a stranger, the stranger thereby obtaining possession, is not a payment by the acceptor. A bill paid before it is due, and afterwards negotiated by a *bonâ fide* indorsement, is a valid security. It is held that payment of a bill before it is due does not extinguish, as regards the antecedent parties, any more than if it were discounted, as the difficulty of ascertaining whether an anticipated payment had been made would considerably interfere with the circulation of bills and notes. The payer of a bill can demand its delivery to him; if not paid, the holder should keep possession. An agent, however, is justified, according to accepted practice, in delivering up the bill on receipt of a cheque, even though the cheque be dishonoured. The drawers or indorsers in such a case would be discharged, they having the right to insist on the delivery of the bill into their hands on payment being made by them. The customary practice among bankers is, on receipt of a cheque in payment, to attach it to the bill, so that, in case the cheque is dishonoured, the banker retains possession of the bill. Credit given to the holder of a bill by the person ultimately

liable is considered equivalent to payment. When a banker makes advances on a promissory note received from a customer and his surety to cover a running balance, the note is not discharged by sums subsequently repaid and not appropriated to the discharge of the note, but it still continues as a security for the existing balance. A receipt on the back of a bill is *primâ facie* evidence of payment by the acceptor; and, on paying a bill, a receipt can be demanded, and should always be taken. If a drawee discover on the same day that payment was made, that the bill or note was a forgery, he can, as a rule, recover the money. If a bill be paid with the understanding that the payer is to have possession of the instrument, and it is afterwards withheld, an action may be brought to retract the payment; also, an indorser may sue if he has been induced by fraud to pay a bill on behalf of the person liable. Care should be taken in paying bills to see that all is right previous to cancellation, as this is considered to extinguish the instrument. The payment of a bill to a person declared a bankrupt is unsafe, inasmuch as the bankrupt's property vests in the assignees, from whom alone a valid discharge can be obtained. If partial payment has been received from the acceptor

at maturity, the holder can recover only the balance. Payment of a lost bill may be obtained by giving a satisfactory indemnity to the court. A renewal bill being dishonoured, an action may be brought on the original.

16. *Cases in which a Banker is justified in refusing payment of a Bill or Note.*

On being presented with a bill for payment, the first thing a banker looks to is to ascertain if he holds sufficient funds, without which, it is hardly necessary to state, the document must be dishonoured. It is more prudent in all cases to give a banker advice of bills becoming due, without which, any informalities, &c., might give rise to suspicion, and cause injurious delay, perhaps refusal. In cases, however, where a customer is particular in providing for the proper payment of his acceptances, the banker will use his own discretion as to the refusal, as the consequences may be very serious from dishonouring a bill of exchange on account of trivial irregularities. A bill of exchange being refused, for instance, in consequence of an erroneous computation as to the due date on the part of the banker—there being sufficient funds to meet the bill, and before the *re*present-

ment of the bill the funds disappeared — the banker would most likely suffer in case the other parties to the instrument were to take advantage of the banker's negligence. Such an oversight would in all probability be speedily remedied without such loss to the banker; at the same time a banker renders himself liable in the same way by non-payment as by non-presentment. An insufficient stamp, as we have previously stated, makes the document illegal, and it must therefore be refused payment on that ground. Irregularity of indorsement — difference between body and figures, erasure of any vital part of the bill, any apparently subsequent addition made after acceptance to alter the purport of the instrument, an alteration of date so as to prolong the period the bill had to run, or to shorten it — would justify the banker in refusing payment, unless satisfactory explanation were offered on which he could act with safety to himself and for the welfare of his customer.

17. *Discounting Bills.*

Discounting bills—that is, placing the amount which the bills represent to the customer's credit, minus the interest — is a very common custom

among bankers, and is of itself a business with some, who style themselves 'bill discounters.'* Firms trading largely on a small capital find discounting a great assistance, and in some cases are unable to do without it; but bankers are always cautious to ascertain that the paper is of a good class, or moderately so, before they discount to any great extent; as when the accommodation afforded is to a person of but limited capital, in the event of an adverse crisis the banker will probably suffer. Discounting, however, is not confined to trading firms solely, but is considerably resorted to by money-lenders, and all kinds of people who can lend their money at a higher rate of interest than they pay for it. It must be remembered, however, that a discounted bill should never be delivered to any one but the depositor of it until after maturity; as not only can a *bonâ fide* indorsee, holding it for value, sue on it for non-payment at maturity, but it affords an opportunity to any who may be so disposed, to use an eminent name for the purpose of obtaining a sum of money for a period, and

* The Athenians are said to have originated the method of discounting as at present practised,—that is, retaining the profits at the time of the advance.

then retiring the instrument before the signature of the acceptance could, by proper presentation, be verified, and the forgery detected. Also subordinates in banking-houses, or any who may be charged with the custody of bills for presentation at maturity, should be particular in taking written instructions respecting the non-presentment of a bill or note; as a case may occur in which the holder of a bill or note may know the acceptor, and even the other parties to the instrument, to be insolvent, and afterwards, by apparent neglect to present at maturity, endeavour to throw the loss on the bank. The qualifications, however, necessary to render a man capable of presiding over a discounting department are perhaps the most valuable he can possess, as it is frequently the principal source of profit to the bank. A man must possess keen observation, a ready memory, should have means of knowing when certain houses are trading beyond their capital, to be able to distinguish accommodation bills from *bonâ fide* documents; to use all of which in discounting operations, in a large commercial city, of necessity requires considerable experience, sound judgment, and discrimination.

18. *Indications in case of need.*

The indication 'in case of need' will usually appear in the margin of the bill or note, and signifies that the instrument is to be taken to the house of the person or persons mentioned, who will intervene for the honour of the drawer or indorsers, as the case may be. If there be several indications 'in case of need,' application should be made to all to ascertain for whom they interfere, and the preference given to that one who will accept for honour of the prior party to the bill, calculating from the drawer.

19. *The Copy of a 'First' Bill.*

The copy of a first bill of exchange may be negotiated in the same way as a 'second;' the 'second' of exchange, however, in the absence of the 'first,' is frequently accepted where the copy of a 'first' would not be by the drawee, as it does not bear the original name of the drawer. In case of delay of the arrival of a first of exchange, a copy might be accepted for the honour of the original indorsers, as they are still liable to the holder. It is the practice abroad to furnish the copy of a bill which has not been drawn in sets.

A protest may in some cases be made on the copy of a bill. The person making the copy should state distinctly 'copy,' the original with so and so, and transcribe the whole bill with all the indorsements, including his own.

CHAPTER VI.

BILLS OF LADING.

In one sense a bill of lading is at common law assignable, that is to say, its indorsement assigns the property, but does not transfer the contract. Now, however, by a recent statute, rights of action pass to the indorsee of a bill of lading (18 & 19 Vict. c. 111).—'Byles on Bills,' p. 2.

Bills of lading are so extensively employed in commerce, that a few words explanatory of their object may be found of service.

Upon a cargo being shipped, bills of lading—generally three, and sometimes four copies being made—are filled up with the name of the shipper; the name of the ship; her destination; the name of her captain; the particulars of the cargo, or such portion as these bills may apply to. The captain signs all the copies of the bills, retaining *one* himself, and handing over the remaining two or three to the shipper, who indorses them, either

in blank or to the order of the persons to whom he has consigned the goods specified in the bills.

These bills of lading are, in other words, receipts given by the captain, in which he undertakes to deliver the goods in the same state as he received them—under certain exceptions, such as injury by 'fire, the elements, the king's enemies,' &c. The holders of the bills of lading produce one copy duly indorsed to the captain on the arrival of the ship at her destination; upon the receipt of which, he is bound to discharge the cargo to the person thus proving his title to the goods.

If goods be shipped by a vessel which has been hired by a charter-party, the master of the ship will deliver the bills of lading to the merchant who has chartered the ship; but when the ship is not chartered, but simply takes the goods generally as a carrier, then each person receives a bill of lading, which he forwards to the person who is to discharge the cargo on the arrival of the ship at its destination.

CHAPTER VII.

OF THE EXCHANGES.

THE fluctuation in the rates of exchange, or the difference in price which at various times is paid for a bill of exchange, is influenced by a great variety of circumstances, which are often unseen and unthought of by those whose daily occupation is buying and selling bills of exchange.

Our first enquiry upon entering this subject is: what gives rise to bills of exchange, independently of those bills which are now so much drawn by banks for speculation? Legitimate bills of exchange are brought into existence, in by far the greatest proportion, through the necessity which different countries are under of settling their relative indebtedness—incurred by the importation of each other's produce—independently of the precious metals. A corn merchant at New York ships a cargo to London, and instead of receiving gold or silver, or a cargo of English goods in return, draws

a bill upon the consignee, and sells it upon the New York exchange. The purchaser of the bill has a payment to make in London for a cargo of English goods, and instead of sending gold or silver, or a cargo of corn, he remits the bill to his creditor, who gets it accepted, and obtains the proceeds at maturity.* It will thus be seen that at these two places, London and New York, the price of bills must depend upon the importations which have to be paid for; and the farther the importations exceed the exportations, in such proportion will the exchanges become unfavourable, until that point is reached at which it is cheaper to purchase and remit bullion. It will be seen also that the state of things must have become abnormal before the precious metals will be remitted in payment; but it stands to reason that if a merchant's expenses are very high, he must charge more on the goods he imports to the retail trader, and so on to the consumer, until the demand becomes less and the importation declines. If, however, the exportations bear a reasonable

* The purchaser here alluded to may also be drawn upon from London, and the bill used in the same way by a person who has to remit a sum of money to New York. This will depend upon agreement.

proportion to the importations, bills will be procurable at a moderate price, when the exchanges will be neither severe upon buyers nor sellers of bills of exchange.

In considering the effects of a political disturbance such as we see often happening in different parts of the world, it will not need much reflection to understand how great and rapid may be the disorder in commercial affairs. The recent rebellion in the United States offers an example of what a complete state of anarchy may be produced in a country's commerce and currency; unlimited paper issues causing prices to rise and gold to disappear as a circulating medium. Next to nothing being exported, there would be no bills to be had to pay for imports, and the price would rise in consequence to the specie point; gold shipments would be liable to capture by the enemy unless in foreign bottoms; the commercial marine would rapidly decrease, and so forth.

Inland exchange is the employment of bills in the discharge of debts, whereby cash remittances are avoided, the convenience of which is obvious. When two cities have unequal debts, the debtor must pay the balance against it, which causes a

demand for the bills on the city to which the largest account is owing, and, as with any other article, enhances their price. London, for instance, always has a large balance in its favour, being a centre to which payments have constantly to be made, and hence the premium on bills on London. If Liverpool had to remit to London 100,000*l.* and to receive 50,000*l.* the demand for bills on London at Liverpool would exceed the supply by the difference.

Foreign exchange is in principle the same as inland, as far as the settlement of indebtedness by bills is considered, but the mode of adjustment is of necessity more complicated, when countries with different standards of value are trading with each other, their different denominations, and the depreciation which may possibly exist in the currency of one or the other.

In foreign exchanges one country always gives another a fixed sum, or piece of money, for an uncertain sum expressed by other coins. The following 'exchange list' will show some of the principal cities that receive from, or give to, London for the £ sterling. The rates given, however, are subject to constant alteration, and are increased or lessened according to the various circumstances

which are ever occurring to influence the rates of exchange.

London receives from or gives to

Amsterdam . .	12 florins	for	1*l.* sterling.
Hamburg . .	13 marks 9$\frac{1}{2}$ schill.	„	„
Paris	25 francs 25 cents	„	„
Frankfort . .	120 florins 50 kreuz. to florins 121	„	„
Vienna . . .	10 florins 40 kreuz. to 10 florins 50 kreuz.	„	„
Genoa . . .			
Milan . . .			
Leghorn. . .	25 lire 25 centissimi	„	„
Naples . . .			
Palermo . .			
Madrid . . .	50$\frac{1}{4}$ pence sterling (At present worth only 46$\frac{1}{4}$.)	„	1 hard dollar.
Gibraltar . .	50 pence sterling (At present worth only 46$\frac{1}{4}$.)	for	„
Venice . . .	10 florins 40 kreuz. to 10 florins 50 kreuz.	for	1*l.* sterling.
St. Petersburg	37$\frac{1}{2}$ pence sterling	„	1 silver rublé.
Berlin . . .	6 dollars 27 silver gros.	„	1*l.* sterling.
Lisbon . . .	55$\frac{1}{2}$ pence sterling	„	1 milreis.

On account of the forced paper currency, the exchange on Vienna is, at the present moment (May 31, 1866), 13.20 to 13.30; and during the Italian war of 1859, it was as high as 16. Italy, for the reason above stated, was quoted, a month ago, as high as 30 francs (lire Italiane), but since

it has receded to 28 to 28.50. St. Petersburg at present is as low as 24⅝.

One is termed the 'uncertain,' the other the 'certain' price. Paris is said to give to London the 'uncertain' for the 'certain' price, when a number of francs and cents are exchanged for the £ sterling. The quotation of the uncertain price is termed the 'rate' or 'course of exchange.' When there is a great demand in London for bills on Paris, a less number of francs is given for the £ sterling, and *vice versâ*. If the course of exchange between London and Paris be 25 francs for the £ sterling, and that number of francs contains the same quantity of pure silver as 20 shillings, then the exchange would be considered at par; but if Paris give a higher price, the exchange would be in favour of England and against France. In the event of a merchant requiring to remit money from London to Paris when the exchange was unfavourable to England, he would adopt a circuitous mode of payment in preference to buying a bill on Paris, which is called the 'arbitration of exchanges;' for instance, while the bills on Paris are at a premium in London, those on Antwerp may be at a discount; bills also at Antwerp may be at a discount on Paris; so if the

London merchant purchase a bill on Antwerp, directing his agent at that place to invest the proceeds in a bill on Paris, he may liquidate his debt at a cheaper rate, allowing for the additional brokerage and commissions. When three places are used in the operation it is termed '*simple arbitration*;' when more than three, '*compound arbitration*.'

What is termed the 'intrinsic par' of exchange is, the value of money between different countries, according to the accredited assay of its weight and fineness; or, in other words, the metallic worth of coins, judged according to the established value in the countries where they are current; but, except for the purpose of general information, the 'par' of exchange is not calculated—in the first place, gold being the standard of value in this country, and silver in most others; and, secondly, the gold having a fluctuating agio or premium, which would have to be taken into account, and would ultimately make it a mere valuation of bullion. The 'commercial par' is the value of money judged according to the weight and fineness, and the market prices of the metals. Two sums of money would be 'commercially' at par, when they could

be exchanged for an equal quantity of the same kind of pure metal. The 'intrinsic par' of exchange may be computed from either gold or silver coins, but should be made—as a rule—from that metal in which the principal payments are made. It is, however, obvious that the par of exchange can be determined only between countries which employ the same kind of metal for the payment of their bills. The fluctuations in exchange may arise from various circumstances, political as well as commercial. A greater or less demand for money at any one place may influence its commercial value without reference to its intrinsic value; but the state of the exchanges must mainly arise from the result of the operations of exporting and importing, although it must be remembered that the mere merchandise which passes from one country to another is not the sole cause of the favourable or unfavourable state of the exchanges. A foreign loan will influence the exchanges against the country lending, and not against the borrower. It acts as an import to the lending country, and as an export to the borrowing country. The liabilities which are incurred have all an influence, whether by importing or exporting, purchasing securities, or spending money in foreign travel;

the small and the large transactions are identical in effect. It is therefore entirely erroneous to imagine that the large totals which appear as representing the imports or exports of a country are a true index of its indebtedness, or the reverse. What is termed the balance of trade may be in favour of a country as far as the actual imports and exports of merchandise are concerned; but the causes which we have enumerated above may exist to an extent entirely to counteract this. It is true the loan will have (some time or other) to be repaid, but at the time it is effected, it acts upon the exchanges by the importation of the securities of the country contracting the loan, exactly in the same way as if it were merchandise. The revenue derived from these loans, and payable at stated periods by coupons, must be taken into account, although we must not lose sight of the fact, that these permanent debts do not affect the relative indebtedness of countries, except when the time of payment arrives; neither do they affect the exchanges until the actual transfer of claims takes place. The interest due on the debts will, of necessity, be a permanent feature in the indebtedness, and must materially affect the trading capacity of a country borrowing to a large

extent, as she must either export so much more, or import so much less.

A demand for bills of exchange arises from the necessity of paying for importations. The supply arises from the practice of drawing for the amount of exportations. If the importations and exportations were to be equal, the exchange would be nominally at par. Excess of importation causes the exchange to advance against the importing country, and *vice versâ*. Both importers and exporters, on all occasions, endeavour, as far as possible, to avoid the transmission of bullion, whereby they escape the expense of freight and insurance, and the loss of interest besides. Exporters, who may be competing with each other, will sell their bills below par—that is, at a discount—to avoid bullion transmission; and, on the other side, importers, who have debts to liquidate in foreign countries, will pay a premium for bills rather than transmit bullion. In fact merchants, rather than incur the necessity of sending bullion, will offer premiums to drawers of bills, although that premium may rise, as nearly as possible, to the cost of the bullion or specie remittance, which forcibly proves the immense advantage of this instrument in commercial transactions. Beyond this point—

that is, the cost of bullion or specie remittance—the premium the importer must pay cannot rise, and the discount the exporter must sacrifice cannot fall. The object of an exporter is to obtain the money for whatever he may have exported, as soon as possible; he, therefore, draws upon the consignee or purchaser of his goods, and immediately offers the bill for sale, if need be, at a sacrifice rather than wait till the demand is exhausted, and a discount established. It may so happen, however, that a bill will fetch a better price by being drawn on a different place from that to which the goods are shipped: for instance, a transaction between New York and Havre, and the bill being drawn on London. There is a variety of circumstances which may affect a bill of exchange on the money market. First, a bill at a short date, or sight (provided it be of first class), will command a better *proportionate* price than one drawn at a long date, on account of its more speedy realisation; also the contingency of failure of the parties to the instrument at a long date is avoided. A great consideration, too, is the state of the money market in the country where the bill is made payable, which also affects the exchange. A bill bought for ready money must, if it have a long

time to run, suffer a deduction in price; either the seller or purchaser must calculate the loss of interest on a bill, according to his own money market at home, also the time the proceeds of the bill will take to reach him. As we have before observed, a great demand in London for bills on Paris will prove the exchange to be against London, and *vice versâ*, but more especially as regards bills which have immediately to be provided for, as the question of bullion under these circumstances may, more or less, have to come into the calculation. The imports and exports being somewhat balanced, will cause the exchange to be less agitated than if one far exceeded the other. A tight money market will force sales, and make purchasers (unless compelled to remit) reluctant to buy. So much less will be paid for bills drawn on a country where the rate of interest is high; so much more if the rate is low.* Long bills may fluctuate in price to almost any extent, from two principal causes existing in the country where the bills are accepted payable. First, the fluctuation in the value of money. Secondly, apprehensions which

* The rate for short bills, however, may be soon raised in a city where there are large capitalists who are in the habit of sending their money wherever a high rate of interest prevails.

may be felt with respect to the credit of the parties to the bills. These will be material causes affecting the rate of exchange, and the sale of the bill. It must be remembered that, although a certain rate of exchange may exist to influence the price of bills at a certain time, sellers will differ a fraction in the price they demand, according to circumstances. The purchaser of a first-class bill must expect to pay more, for less risk, than if he bought a second-class bill. Even long-dated bills will sometimes command a higher price than shorter dates, when the credit of the parties to the long bills stands higher in the market. It will thus be seen that bills of exchange are subject to fluctuation from a variety of causes, and, like every other article of commerce, will command a price according to the market value.

The term 'favourable' or 'unfavourable state of the exchanges,' is simply this: The exchange between London and Paris being in favour of the former city, would indicate that the bills of London upon Paris were at a discount, inasmuch as you would have to give less money for a bill upon Paris than it purported to represent; whilst the bills drawn from Paris upon London were at a premium. The state of the exchanges being 'unfavourable,'

proves that a great demand exists in London for bills upon Paris, and, in consequence, renders the necessity of exporting bullion more imminent, and that you must give more money for a bill upon Paris than it purported to represent. Between Paris and London the short exchange is the most prominent, for reasons which must suggest themselves. The exchanges being effected in this way (viz. the difference between the payments which have to be made between one country and another) is not the only cause to which the fluctuations can be traced. The currencies of two countries (between which bills of exchange may be operating) being dissimilar will affect the exchange if one of them be at a premium. Political causes will frequently frighten sellers to part with their bills at a great sacrifice in order to insure immediate payment; and such a thing has been heard of as a panic in the money market when the exchange has been favourable.* A profit on the shipment of specie is only obtained under exceptional circumstances, such as a great distance and difficulty of communication existing between two

* Foreign exchanges will fall if the market price of bullion rise above the mint price; also an alteration in the mint price will affect the par of exchange with other countries.

commercial places, and where the want of sellers of bills to receive the equivalent in specie was anticipated, whereby the bills might be bought up below the specie point. Another cause for the fluctuation of exchange will be the transfer of a large amount of capital from one country to another, where a high rate of interest is to be obtained. An advance in the Bank of England rate of discount is invariably followed by a turn of the exchanges in favour of England; and a fall in the rate immediately produces an opposite effect. The reason of this is easily to be accounted for. The high rate of interest ruling in London would cause a demand for bills on that city, with a view of using the proceeds of those bills in obtaining that high rate of interest. Speculative purchasers of bills are sure to ascertain the difference of rate in the country where the bill is drawn and the country where it is made payable, as this may enable them to obtain more for a bill on a country where the rate either has risen or is likely to rise. Hence we see the great importance which is attached to the changes of the rate of discount. There are many Continental cities which hold large amounts in bills on London, and, if the rate of interest here falls below the Continental

rate, those bills will be immediately sent to England, and the gold returned to be invested in the higher rate of interest ruling on the Continent. A rise in the price of bills *on* England is sure to be accompanied by a fall in the price of foreign bills in England. We find that the fluctuations in exchange also arise from a depreciation of one or both currencies, or the transfer of any quantity of bullion or specie from one country to another, either of which will produce an effect in proportion to the magnitude of the cause. We will endeavour to give two examples illustrative of these two causes of fluctuation. First, a depreciation of the currency is due to the rise of the market price of gold above the mint price, allowing a margin for the metal being changed from one form to another, and the foreign exchange falling lower than the limit of the real exchange; thus: the *nominal* exchange between London and Amsterdam fell more than 20 per cent. against England in 1694, on account of the depreciation of her currency, at the same time the *real* exchange was in her favour. Secondly, to illustrate the fluctuation of exchange as caused by transmission of bullion, suppose England is driven to the American market for corn, on account of the failure of the harvest, and

that a large quantity of corn is shipped to England without America having made equal purchases from England, the balance of trade must be against England, to meet which bullion must be remitted; bills on New York will immediately be at a premium; the exchange will be adverse to England; and, if the premium on bills rises beyond a certain point, an efflux of bullion must be the inevitable result. These are the two prime causes of the fluctuation in exchange; and the fundamental principle upon which the price of bills rests is the '*balance of indebtedness.*'

CHAPTER VIII.

OF CURRENCY.

A CHAPTER on currency cannot, perhaps, be better opened than by quoting two paragraphs from the writings of the patriarch of political economy, Adam Smith. In chapter iv. of 'The Wealth of Nations,' upon the subject 'Of the Origin and Use of Money,' he begins thus:

'When the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for. Every man thus lives by exchanging, or becomes, in some measure, a merchant; and the society itself grows to be what is properly a commercial society.

'But, when the division of labour first began to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former, consequently, would be glad to dispose of, and the latter to purchase, a part of this superfluity. But, if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it; but they have nothing to offer in exchange except the different productions of their respective trades, and the butcher is already provided with all the bread and beer which he has immediate occasion for. No exchange can in this case be made between them. He cannot be their merchant, nor they his customers; and they are all of them thus mutually less serviceable to one another. In order to avoid the inconvenience of such situations, every prudent man, in every period of society after the first establishment of the division of labour, must naturally have endeavoured to manage his

affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry.' The great advantage of coined money for currency purposes, we are told, first presented itself to the Lydians; as coined money, however, will be treated separately in the chapter upon coins, we shall simply confine our attention to the investigation of the question of currency generally, as a commodity employed for the measurement of the value in exchange of all other articles.

Mr. John Stuart Mill, in his 'Principles of Political Economy,' vol. ii., p. 168, says: 'The introduction of money is a mere addition of one more commodity, of which the value is regulated by the same laws as that of all other commodities; and that money has little to do except to furnish a convenient mode of comparing values.' And again, at page 172: 'In international, as in ordinary domestic interchanges, money is to commerce what oil is to machinery, or railways to locomotion, a contrivance to diminish friction.'

Gold and silver have been long accepted as the

most fitted for a metallic currency, as combining the greatest worth with the least fluctuation in value, in the most convenient form. Gold being a more expensive metal by about fifteen times than silver, will be naturally employed only by rich countries as their standard of value, and silver by poorer countries. The value in exchange of gold and silver, like all other commodities, will depend upon the labour required for their production. The currency of countries can never become superabundant, for increasing the quantity will of necessity diminish the value. A continued increase in the metallic currency of a country raises prices, which attracts commodities from other countries, in return for which the money flows out until the normal level is again reached. Mr. Ricardo says: 'Gold and silver having been chosen for the general medium of circulation, they are by the competition of commerce distributed in such proportions amongst the different countries of the world as to accommodate themselves to the natural traffic which would take place if no such metals existed, and the trade between countries were purely a trade of barter.' The great difference which is known to exist between the metallic currency of England and France will demonstrate how much

more costly the French system must be as compared with the English, with whom many more times the amount of mutual indebtedness is settled simply with the aid of paper. Whether the extent to which the metallic basis has been diminished in England causes more loss to the community generally by the more rapid fluctuations in the price which must be paid for it or not, is a matter for closer investigation; but there can be little doubt that the damage which may be caused by too small a metallic basis, when commerce is temporarily deranged by natural or unnatural agencies, can bring far more permanent loss upon a nation than the most expensive circulating medium that can be devised. The fact can never be got rid of, that, however small it may be desirable that the metallic pivot should be upon which the paper medium revolves, and however large the profit may be from such economy, every pound upon paper that represents twenty shillings must if required throw off its disguise; and if the occasion suddenly presents itself when the paper obligations of a nation unexpectedly and on a very large scale are required to be converted into gold, then happens the crisis which is the inevitable consequence of a demand to fulfil engagements which would never have been

contracted had such a contingency even been conceived possible; and it is the fatal mistake which so many engaged in mercantile affairs make, of spreading their operations over too wide an area in proportion to their real capital, that causes so much disaster, when the assistance of discounting, &c., to which they have become so accustomed, is suddenly curtailed, and perhaps cut off altogether. When all works smoothly, and the great products of the earth yield a fair average of what is expected of them, then those engaged in their importation and exportation are maintained by their distribution to the masses; but failure in the yield of any of the great products of the earth carries loss and ruin to the doors of thousands: a famine caused by a bad harvest produces the same effect among those who subsist upon bread as a famine among merchants and traders when the credit they have been long accustomed to is suddenly withdrawn. Conceive a large manufacturer who sells his goods to wholesale dealers on six months' credit, and has been in the habit of discounting their acceptances and making fresh goods with the proceeds, his capital in the greatest part being the machinery and premises where the manufacturing goes on; his banker raising the rate of interest, so that a large part of his

profit is eaten up, is already bad enough; but when, from a general panic, the banker's available funds are required to meet current demands, what becomes of the manufacturer when the assistance which has become so indispensable is withdrawn altogether? He has also purchased the raw material, and in his turn has accepted bills which will now perhaps become useless in the hands of the creditor. So distrust spreads itself, and all the currency laws that can ever be devised will never make capital so elastic, or money—which is its representative—available for sudden emergencies, any more than supplies of corn can be created when God does not think fit to give the increase.

A currency is undoubtedly in the most desirable form, and is most perfect, when consisting entirely of paper, *when* that paper can at all times be exchanged for the gold or silver which it purports to represent. Gold and silver are the dearest form of currency, paper is the cheapest.

When gold was first used as part of the currency, Dr. Adam Smith informs us 'it was not considered as a legal tender for a long time after it was coined into money. The proportion between the values of gold and silver money was not fixed by any public law or proclamation, but was left to be

settled by the market. If a debtor offered payment in gold, the creditor might either reject such payment altogether, or accept it at such a valuation of the gold as he and his debtor could agree upon.' In this way it will be seen that all persons would discharge their debts in one or the other of these metals which was most favourable to the discharge of their debts at the time. The double standard in France encourages this system in the present day, and can be the means of causing the dearer metal to disappear from circulation for a time, as it would no longer be the standard, and be worth more when melted into bullion than remaining in the shape of coins. The great inconvenience of a constantly-fluctuating standard was ably shown by Mr. Locke, and other writers who followed him; but not till the year 1816 could the great importance of fixing the standard be sufficiently impressed upon the minds of those through whose agency alone such a reform could be legally effected.

If the silver currency were coined to an unlimited extent, it would sink in value as compared with gold, and therefore the Government have taken upon themselves to stop the coinage of silver when they may deem such a course expedient; in addition to which it is a legal tender only to the extent of 40s.

Some persons are under the impression that a country which has a large metallic currency is very rich. On the contrary, it is a waste of resources instead of an indication of wealth. The object of all nations now is to economise their currency as much as possible. To achieve this end, the great thing to do is to establish banks everywhere, which will drive the currency rapidly into all channels where it is required to stimulate industry. Every man in a country may walk about with his pockets full of gold; but this will not help to cultivate the ground, to work mines, or to grow coffee, cotton, tea, or assist in bringing forward any produce of the earth. There is much waste in this respect in countries which are thinly populated, where the difficulties of getting from one town to another are great. When people cannot obtain their money without much trouble and delay, they are unwilling to deposit in a bank even when they are paid interest for its use. It can easily be imagined what the loss would be of erecting a costly steam-engine, and then, instead of applying it to the various uses of grinding corn or making paper, it were allowed to remain motionless. If a number of people walk about with their pockets full of sovereigns for long periods together, a precisely similar loss is taking

place the whole time. Each sovereign has so much value in exchange, in the same way as a part of the steam-engine, in proportion to the amount of labour necessary to its production; and either causes a loss to the community by not doing the work for which it was created. At a certain period of Spanish history her soldiers are said to have been provided with gold swords but no shirts; and this will serve as an instance to prove of how little proportionate value gold becomes when it ceases to be employed as a medium for procuring other commodities.

The absolute necessity of banks in thoroughly utilising the currency is established by showing how the money of one man, instead of lying idle in his coffers, and representing so much latent power, may be lent to another, and by him to a third, for the furtherance of their respective schemes, and will pass again into a bank to be busily employed in a hundred other transactions. In this respect, paper is considered the most perfect form of currency, although some authorities go so far as to consider that paper debases the currency. It must, however, be obvious that as long as the paper either continues to command the amount of legal metallic currency for which it was first

accepted by the public, or to purchase bullion at the mint price, it cannot debase the currency. Paper currency has a considerable advantage over metallic, inasmuch as it cannot depreciate by abrasion. A large paper currency is unmistakable proof of a country's prosperity, *while* that paper continues to be equivalent to its nominal value in gold. The great problem which the legislature has to solve for the benefit of the currency and banking is to devise such a system as will prevent paper from being issued in such excessive quantities as to lower the standard of value altogether, and consequently raise the market price of gold. The issue of assignats during the French Revolution, April 1790, produced the most disastrous effects, as much as 350 millions sterling being in circulation in France and its dependencies. But, on the other hand, as Adam Smith truly remarks, 'the substitution of paper for gold money replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient—a new wheel comes into operation which is both cheaper to erect and to maintain in efficiency.' It appears, then, that the great object is, so to regulate the issue of paper that banks shall preserve the equilibrium of the currency by withdrawing the excess and sup-

plying the deficiency. A fixed circulation of paper can only remain so while the population and industry remain comparatively stationary; but as a city increases in size and commercial importance, so must the machinery for its pecuniary transactions be enlarged.

We find that all countries have been engaged in discovering the most portable and valuable of the metals to adopt as a currency, in which would be represented the greatest power of commanding services or things, and of the most convenient form for carrying about the person; and it must be apparent to the meanest understanding that other than an entirely metallic currency *must* come into operation as civilisation advances. Immense transactions take place involving large payments, and, as a natural consequence, paper representing the amount must come into use to obviate the trouble and labour of transferring a large amount of coin. Agricultural countries progress slower in the accumulation of wealth, on account of the circulation of their currencies being more languid. Poland may be cited as a country engaged principally in agriculture, and consequently very poor. England and Holland, on the contrary, have a very small proportion of their populations engaged in agri-

culture, and both are rich countries. The Spaniards entirely overlooked the great axiom that money was only wealth when employed in setting industry in motion, and worse than useless when amassed in large quantities, as they did after their American conquests, whereby other countries gained by the sale of their manufactures to Spain, while her internal trade languished, until protection was obliged to be called in; and eventually smuggling ensued to such an extent that, while the cotton goods of England were prohibited from being brought into the country, the officers of the Government were selling them at Madrid 30 per cent. beyond their Manchester value.

The most celebrated Act that has been passed for the rectification of the disorders which had on so many occasions paralysed our money market previous to the year 1844, was passed into law through the instrumentality of Sir Robert Peel at the renewal of the Bank of England charter, which was granted in 1844. On two occasions has the action of this law been suspended by Government, the first of which took place about three years after the measure was enacted. As an additional proof of how far this measure has fallen short of what was expected of it, we may quote a question

which was put by a member of the House of Commons to the governor of the Bank of England in 1848: 'You have described, as part of the operation of the Act of 1844, that you were during the year 1847 obliged to lend consols instead of notes, on account of the limit prescribed by the Act —that you borrowed consols in April—that you were obliged to raise the rate of interest to 9 per cent.—that you refused loans on Exchequer bills —that there was a pressure in April and a panic in October—and that Government were obliged to interpose by a letter, in order to protect the public from the restrictive effects of the Act.* Do you call that a satisfactory history of any system?'† The observation may be made that the state of commerce altogether, just previous to 1848, was such that no single institution, under the circumstances in which the Bank was then placed, could bear up against such an exceptional and abnormal state of things. Commercial affairs, doubtless, *can* be so paralysed that no bank, as they are at present constituted, can withstand the strain. It

* It was found necessary again to suspend this celebrated Act in May 1866, when advances were made by the Bank of England to the unprecedented extent of 4,000,000*l.* in one day. See Appendix.

† J. W. Gilbart, 'Treatise on Banking,' vol. i. p. 150.

is quite impossible to predict to what extent the crises of 1847 and 1857 may be re-enacted; but it is certain that, unless the provisions of the Act of 1844 are reconsidered, and the weakness which both departments of the Bank suffer from by their separation is strengthened by exterior co-operation, we shall never see the national currency doing its work—during periods when money is difficult to obtain—without rapid and unnatural fluctuations.

There is a prevalent and erroneous idea in the minds of many people that banks have the power to force into circulation as much paper money as they like, and that by such means, at the will of paper issuers, the currency may be expanded *ad infinitum* so long as any profit is to be reaped by such expansion. If too much—that is to say, more than can be consumed—of any other commodity is produced, its value becomes reduced until the surplus has disappeared, when the ordinary price is again reached. As *metallic* money is affected by all the peculiarities which affect other commodities, and has its price determined by the amount of labour necessary for its production, when supplied in quantities beyond the capacity of the period to utilise or consume it,

it falls in exchangeable value, or, which is equivalent, causes the prices of other things to rise, other things having previously been measured by *its* value. So long, therefore, as *paper* money is accepted by the public as equal in exchangeable value to the gold it represents, the currency is increased in the same degree as if so much more gold is in circulation. Instead of the gold falling in exchangeable value, as it would do, its representative, the paper, is returned upon the issuers until that amount of currency has been reached which is sufficient to enable the population to transfer their goods according to the demand and supply of such goods at the time; and the amount of the currency can only be influenced, either side of such natural point, by the fluctuations of price and production, and by an absence or otherwise of that knowledge which in the present day enables the foremost countries so greatly to economise their currencies, and especially the metallic portion, by the aid of banking institutions.

In 1832 Mr. Tooke reported to a committee of the House of Commons—when the question of the Bank charter was being discussed—that, 'as far as my researches have gone, in every signal instance of a rise or fall of prices, the rise or fall has

preceded, and therefore could not be the effect of, an enlargement or contraction of the Bank circulation.'*

A rise of prices generally has the effect of causing people to spend more, under the belief that the increased charge will be only temporary and they need not deny themselves. If bread and meat rise 2*d.* or 3*d.* a pound, or even less, in a large city, it will stand to reason that the payments made by all purchasers of these articles of food will be increased by such proportion; and, if the majority of them draw their weekly cheque upon their bankers for so much more than usual, the rise of prices will be followed by an expansion in the circulation of bank notes. When such prices recede, or fall below the ordinary prices, the circulation of bank notes will be contracted, *à priori*, in a similar manner.

There is, however, a vast number of causes which influence the fluctuations of the currency, and which at some periods cause very great competition for money, or credit, which is the same thing; the result of which is a rise in the rate of

* This has reference to a temporary rise of prices from a scarcity of certain commodities, and is quite distinct from a permanent increase in that commodity which is used for the circulating medium.

discount. The immense competition at present in the city of London appears to promise no return to 2 or 3 per cent. for loans, &c., as we have seen. Every shilling that can be laid hold of is eagerly seized by this or that finance company or bank, who bid against each other to obtain deposits. In this way enormous sums of money are collected by these institutions at short call, and are employed in a hundred enterprises where a larger rate of interest can be obtained for the loan than is paid to the depositors. This works all very well until the depositors become panic stricken, and all demand their money at once. The stages necessary for procuring the money which is lent to a railway company, for instance, for nine or twelve months, need not be gone through; suffice it to show that a healthy rise in the rate of discount, occasioned by an increase in the legitimate trade of the country, becomes unduly augmented by the pressure of these companies for similar accommodation, when even a part of their deposits are withdrawn from distrust or otherwise. There is also a class of capitalless speculators, who are often encouraged in their bottomless enterprises by obtaining credits with certain companies, which is an easier method than getting cash in the ordinary way of discount.

It will be obvious that, when possible, many of these bills will be discounted, and will be the very paper to do the most mischief when the abnormal pressure comes, being, as a rule, based upon nothing. Many of these companies, in order to obtain any business at all, have encouraged the creation of a great deal of bad paper, and thus a dangerous and permanently increased demand for credit and accommodation has become established, which must tend to enhance its price and, consequently, keep up the rate of discount.

CHAPTER IX.

ON BANK-NOTES.

Historical Memoir from the Establishment of the Bank of England —Suspension of Cash Payments, 1793—Resumption of Cash Payments, 1821—Panic of the Year 1825—Renewal of the Bank Charter, 1833—Bank Acts of 1844 and 1845—Clauses of the Act of 1844 relating to Bank of England Notes—Clauses of the Act of 1844 relating to Country Bank Notes—Effects of the Act on the Country Note Issues—Irish and Scotch Bank Acts—Present State of the Fixed Issues—Remarks on the Regulation of Bank Note Issues.

THE only approach to paper money in this country, previous to the establishment of the Bank of England, was the issue of receipts by the goldsmiths for money lodged in their hands, which receipts were frequently circulated in the same way that bank-notes are at present.

Correctly speaking, the issue of bank-notes commenced with the Bank of England, in 1694, although there was at that time a most important difference between those documents and the issues in use now, inasmuch as the Bank then allowed interest at the rate of 2*d.* per cent. per diem on its

notes. By the charter of the Bank, it was prohibited from borrowing in excess of its capital, which was at first fixed at 1,200,000*l.*; and it would seem that the full amount was issued very quickly, for, in a pamphlet published by Mr. Godfrey, the deputy-governor in 1695, he mentions that the interest paid on notes was 36,000*l.*, which would be about the sum required if the limit was attained; the practice of allowing interest on notes seems, however, to have been very soon discontinued.

Bank-notes, shortly after their introduction, had a very serious ordeal to go through, and one which cannot be attributed in justice to the authorities of the Bank. For some years previous to the establishment of the Bank of England, the scandalous custom of clipping the silver coin had been carried on to a great extent, in spite of severe laws enacted against it. In the summer of 1695 the evil had gone to such a length, that thirty shillings in silver coin was required to purchase a guinea. In the early part of 1696 a new silver coinage was issued to the Bank. Previously, silver had almost disappeared from circulation, it having been exported to purchase gold, the profit thereon being so great. When the new silver was coined, there naturally ensued a rush to procure it, and the Bank was

obliged to repay, in silver of full weight, the notes it had previously issued in exchange for clipped and debased coin. The loss thereon was of course very large; but that was not the whole of the evil, the new silver could not be procured quickly enough to meet the demand, and in consequence a notification was published partially suspending cash payments.

Bank-notes on this fell to 20 per cent. discount, and to counteract this an expedient was adopted of a very bold, but, as it turned out, entirely successful, nature. This was an increase of capital, the subscriptions to which were to be received *at par*, in bank-notes, which stood then at the above-mentioned discount, and in exchequer tallies which were still more depreciated. Upwards of 1,000,000*l.* was thus subscribed, and the withdrawal of that sum from circulation had the effect of raising the remaining part to its nominal value. It should here be mentioned that, although Parliament did in the year 1697 pledge themselves not to establish by legislative enactment any corporation in opposition to the Bank of England, there was nothing to prevent any private body of men from doing so until the year 1707, when a bill was passed prohibiting any number of persons exceeding six from

issuing notes on demand, or for any less tenor than six months; and as the idea was then prevalent that banking could not be profitably carried on without the privilege of issuing notes, this prohibition effectually prevented any opposition to the Bank of England by the establishment of other banks on the joint-stock principle. Parliament, though thus careful of the interests of the Bank of England, failed to take any precaution to stop the issue of notes to an unlimited extent by country private bankers, the consequence of which was that shopkeepers turned bankers in all directions, and flooded the country with their worthless paper. A strange anomaly this, to prohibit a corporation of known wealth and respectability from issuing notes, and allow individuals, in some cases not worth sixpence, to do so to an extent only limited by the faith of their customers.

This monopoly was in full force over the whole of England until 1826, when it was partially done away with by restricting its operation to a radius of sixty-five miles from London; and in 1833, as regards deposits, the whole country was exempted from the sway of the Bank of England.

In 1759 notes were first issued for 15*l.* and 10*l.*, the minimum having previously been 20*l.*; no

further alteration took place until 1795, when 5*l.* notes were used.

It is worthy of remark that about 1781, the use of cheques becoming more general, the London private bankers discontinued the issue of notes;* and from that time have never renewed it, although not prevented by legislative enactment until 1844.

We have now to consider an episode in the history of the nation which, to a commercial people like ourselves, must always be looked back upon with shame and regret; we allude to the suspension of cash payments. Various causes have been assigned for this unfortunate step, the management of the Bank being very roughly censured by some writers. Sinclair, in his 'History of the Revenue,'† quotes the opinion of a contemporary, and especially mentions that he agrees with it, to the effect 'that the conduct pursued by the Bank of England, for a considerable time previous to the suspension of the payment of its notes, almost warrants the suspicion that instead of really dreading that suspension as an evil, they

* Macleod, vol. ii. p. 63.

† Sinclair's 'Hist. of Revenue,' vol. iii. p. 307.

rather looked to it as an advantage.' There is no doubt that the holders of bank stock did benefit largely by the suspension, as the following figures will testify.

In the year 1797, when the restriction commenced, the highest price of bank stock was 146, the lowest 115;* we will take the price every five years down to the final resumption in 1821:—

Years	Highest	Lowest
1802	207	178
1807	235	208
1812	232	212
1817	294	220
1821	240	221

For several years prior to 1797 the dividend on bank stock had been at the rate of 7 per cent. per annum. In 1807 it was raised to 10 per cent., in addition to which from 1797 to 1816 the proprietors had bonuses on their capital presented to them of the following amounts, viz.:—

17½ per cent. in Navy Five per Cents.
15 „ in Money.
25 „ in Bank Stock.†

These advantages truly were very great; but before condemning the directors for acting as they

* Francis' 'Hist. of Bank,' vol. ii. p. 261.
† Ibid. p. 276.

did, the difficulties of their position should be well considered, and the probable effects of a different system to that adopted duly weighed. A clause in the Act of 1694 prohibited the Bank from advancing money to the Government under the penalty of a fine of treble the amount so advanced. In 1793 Mr. Pitt introduced and quickly passed an Act repealing this clause,* which practically took the management of the Bank out of the hands of the directors, unless they resorted to the extreme measure of refusing to pay the drafts of the Government, and thereby proclaiming a national bankruptcy. In his extreme need of money Mr. Pitt did not fail to make use of this resource, and to such an extent that by an account dated February 10, 1797, we find the advances amounted to 7,185,645*l.*, exclusive of 400,000*l.* for arrears of interest.† It must be understood that this is altogether distinct from the permanent debt due to the Bank of 11,686,800*l.*, which was included in the national debt accounts as funded debt, and was the subscribed capital of the Bank; the advances in question formed part of the unfunded debt.

* Sinclair's 'Hist. of Revenue,' vol. iii. p. 26.

† Francis' 'Hist. of Bank,' vol. i. p. 229.

The enormous subsidies this country was sending abroad to aid its allies on the continent in the struggle against Napoleon, had caused an immense drain on the metallic reserves of the Bank for the last year or two; while the diminution of the provincial bankers' issues since 1793 (estimated by Mr. Thornton at one half) rendered an extra supply of bullion necessary to supply the deficiency which also was drawn from the Bank, and altogether had reduced the stock of specie so low that the directors in their anxiety to provide for their own safety used every means to get notes in, and to such purpose that in five weeks prior to February 25, 1797, the circulation was reduced from 10,550,830*l.* to 8,640,250*l.** The contraction of the note circulation increased the requirement for gold; the probability of invasion induced hoarding, and a run on, and consequent stoppage of, two large banks at Newcastle on February 20 caused a complete panic, which lasted all through the week, by which time the bullion at the Bank was brought down to 1,272,000*l.* On Sunday, February 26, 1797, a cabinet council was held, when the resolution was

* 'Lords' Report, 1797,' p. 177.

arrived at to suspend cash payments, and instructions to that effect were given both to the Bank of England and the Bank of Ireland. From that date to May 1, 1821, this country had what it is to be hoped it will never see again—an inconvertible paper currency.

It appears that at the time of the suspension the assets of the Bank exceeded its liabilities by 3,826,890*l.* exclusive of the permanent debt of the Government.

Committees of both houses were immediately appointed to investigate the affairs of the Bank, and the causes and advisability of the suspension. The directors attributed it to the advances to Government; merchants to the sudden contraction of the note circulation.

Mr. Macleod,* after some remarks in which he agrees with the merchants, says: 'From the foregoing consideration, as well as the weight of authority on the subject, we can scarcely have any room to doubt that the suspension of cash payments was brought about at that particular time by the erroneous policy of the directors. We must in candour state that it appears open

* Macleod, 'On Banking,' vol. ii. p. 98.

to much doubt whether any management, however skilful, could ultimately have saved them from such a disaster during some period of the war.' But he also says: 'As the suspension, then, must, we think, have taken place sooner or later, it was probably advantageous for the country that it did occur so early in the struggle.'* Although, as already mentioned, the resumption of cash payments did not take place until the year 1821, when the order for suspension was issued, the 24th of June in the same year was the date given for resuming, but after one or two extensions of the time, a month after the conclusion of a definitive treaty of peace was finally fixed as the limit.

An Act was passed in 1797 to remedy the want of small change by allowing small notes to be issued; in England below 5*l.*, in Scotland below 1*l.*

The following figures, extracted from 'Francis' History of the Bank of England,' will show the wonderful effect the suspension and the issue of small notes had upon the Bank circulation; unfortunately the country banks at that time made

* Macleod, 'On Banking,' vol. ii. p. 100.

no returns, so that it can only be a matter of estimate as to what extent they were influenced.

	Circulation.	Bullion.
Feb. 28, 1792	11,307,000	6,468,000
„ 1797	9,675,000	1,086,000
„ 1802	15,187,000	4,153,000
„ 1807	16,951,000	6,143,000
„ 1812	23,408,000	2,983,000
„ 1817	27,398,000	9,681,000
„ 1821	23,885,000	11,870,000
„ 1823	18,392,000	10,384,000*

By this it will be seen that while the circulation, i.e. the profitable part of the Bank business, rapidly expanded, the bullion, or unprofitable part of its resources, was usually lower than before the inconvertible system began. Although it is not possible to tell the amount of the increase of the country bank-notes, there cannot be the slightest doubt that, taking into consideration the number of new banks started during the period, it must have been many millions.

In 1797 the number of country banks was 270; in 1810, 721—a threefold increase in the space of 13 years. In 1813 they had risen to 940.

It will be scarcely worth while to follow the course of the paper currency through its vicissitudes for the next few years, or to trace the

* Francis' 'Hist. of Bank,' vol. ii. p. 277.

gradual depreciation, first of Bank of Ireland, and later of Bank of England notes, a depreciation which the Bank directors in both countries earnestly denied, contending that gold had risen instead of the note having fallen in value. It is as well to pass over this, and like controversies of that day, as matters on which there is now no difference of opinion. Mr. Macleod gives a table showing the market price of bullion,* and consequent *real* value of the bank-note at various times during the restriction, by which it appears that down to 1804 the depreciation was but nominal, after that time it became gradually worse; on August 6, 1813, the price of bullion was 5*l.* 10*s.*, making the 1*l.* note equivalent to 14*s.* 2*d.* in coin; this was the extreme point of depreciation.

The Peace of Amiens, concluded March 27, 1802, compelled the Bank to be ready to pay bullion in a month from that date, but Mr. Addington relieved it of the necessity by persuading parliament to prolong the restriction until March 1, 1803; it was then put off to the following session, by which time war had again broken out, so the resumption of cash payments was deferred until

* Macleod's 'History of Banking,' vol. ii. p. 221.

six months after the conclusion of a treaty of peace. This period expired in March 1815, but again was the evil day postponed to July 1816, afterwards to 1818, and finally, by the provision of Peel's Currency Bill, a gradual resumption took place.

This celebrated Bill enacted that between February 1 and October 1, 1820, the Bank should cash its notes in bullion at 4*l.* 1s. per ounce; from October 1, 1820, to May 1, 1821, at 3*l.* 19*s.* 6*d.*; and from the last date to May 1, 1823, at 3*l.* 17*s.* 10½*d.*; in each case the notes presented were to represent the value of 60 ounces. On May 1, 1823, the restriction acts were to expire finally. In 1821 a Bill was passed to allow the Bank to resume its payments in cash, May 1, 1821, which it accordingly did on that date. The Act of 1819 had provided that the issue of country notes for 1*l.* and 2*l.* should be stopped in two years from the Bank of England resuming cash payments; but it was found in 1822 that the rapid contraction of the currency owing to the enactment of Peel's Bill, had caused such a diminution in prices generally that it was deemed wise to respite the small notes till 1833.

This had a most injurious effect—the country

banks poured forth their paper in all directions, prices rose rapidly, and speculation was engendered to a vast extent; bubble companies started up by dozens, and loans were contracted with the greatest ease by foreign powers; all went well and prosperously till the latter end of 1825, when the bullion in the Bank began to diminish, and the directors in consequence contracted the discount accommodation to the public. Then the companies formed by the speculation of the hour found their shares fast falling in price, the country banks were beset for cash in exchange for notes, the whole ending in the panic of 1825. It is said that the discovery of a number of 1*l.* notes at the Bank of England ready for circulation, and the issue thereof with the consent of the Government, was of the most important service in restoring confidence in the country districts. The panic was, however, the death-blow to the small notes, as after February 1826 no more stamps were issued, and in April 1829 small notes were finally abolished in this country. Government at this time intended also to extinguish the Scotch and Irish 1*l.* and 2*l.* notes, but the opposition to it, especially in Scotland, where it was assisted by the powerful pen of Sir Walter Scott, was too strong for ministers to

meddle with, and the small notes exist to this day in both the sister countries.

The panic of 1825 led to two other important measures, both with the same end in view—the improvement of the country circulation—viz. the establishment of branches of the Bank of England in the larger towns, and the partial abolition of the Bank monopoly by the permission to open joint-stock banks of issue beyond sixty-five miles from London. We may remark *en passant* that in the debates relative to these changes, both Mr. Huskisson and Sir Robert Peel advocated the limited liability system for banking companies, which has lately been so largely developed.

The important step of making notes of the Bank of England a legal tender was taken at the renewal of the charter in 1833, when it was declared that the tender of notes for any sum above 5*l.* was legal in England and Wales, except by the Bank of England itself. This measure was strongly debated at the time, and among its opponents was Sir Robert Peel, but it was carried on a division by 214 to 156.

In this Act was inserted a clause to the effect that the exclusive privileges of the Bank of England did not extend to the prohibition of joint-

stock banks within sixty-five miles of London, provided they were not banks of issue.

This clause was strongly protested against by the Bank, on the ground that the negotiations with the ministry previous to the renewal were carried on with the understanding that the privileges of the Bank were to be preserved intact: This was strictly true. At the time these communications passed there can be no doubt that both parties were of opinion that the phraseology of the charter prevented the establishment of banks, either of issue or deposit, within sixty-five miles of London; but when the law officers had been consulted and gave their opinion adversely to the Bank, Lord Althorp determined to avail himself of it, and answered the directors by saying that the stipulation was that their privileges should not be lessened, to which he would strictly adhere, but that he could not consent to improve their position by any new enactment. Now, whatever may be the general opinion respecting the policy of curtailing the exclusive rights of the Bank as regards the public, it will doubtless be conceded that it was rather sharp practice towards the corporation. The directors did not feel strong enough to resist the Govern-

ment, so they did the best thing possible under the circumstances, submitted with a good grace.

The charter was renewed in 1833 for twenty-one years from August 1, 1834, but power was reserved by the Government to suspend it after the expiration of ten years if a twelvemonths' notice was given of the intention.

Within the next few years there were two serious disturbances in the money market, but arising from very different causes; the first culminating in the latter end of the year 1836, the second in 1839. The harvests of 1832-3-4 were very abundant, and the price of corn in consequence fell extremely low, which although a severe trial for the agricultural, was a source of great prosperity to the manufacturing interest. Railway schemes were starting, and speculation of all kinds increasing, the new joint-stock banks giving great facilities by credit and discounts; which latter were immediately re-discounted, until the Bank of England issued a notice to the effect that all bills bearing the indorsement of a joint-stock bank would be refused discount, whatever other indorsements they might have. America was about this time re-establishing a metallic currency, and drawing large sums

from this country in exchange for securities. Two large joint-stock banks failed—the 'Northern and Central' in England, the 'Agricultural and Commercial' in Ireland—during the month of November 1836, and of course created a great deal of uneasiness, but the Bank of England by giving large accommodation seems to have averted the storm.

The second disturbance was owing to very different causes: following the plentiful harvests above mentioned was a succession of bad ones, causing an enormous demand for corn from abroad, which in due course necessitated an export of bullion to pay for it. The Bank of England was obliged to resort to an artificial means of getting the gold back, and the expedient adopted was this: by arrangement, Messrs. Baring drew for about two millions sterling on Paris bankers, the Bank of France engaging to pay the drafts even should the acceptors not be in a position to take them up at maturity. This had the effect of stopping the drain; but so low had the cash fallen that, on September 2, 1839, the total amount at the Bank was 2,406,000*l.*,* and it is

* Macleod's 'Hist. of Banking,' vol. ii. p. 285.

said that but for this relief it would have been necessary to suspend payment.

Having rapidly glanced at the history, so to speak, of the paper currency, we come to the consideration of the Act of 1844, which is now the regulator of the note circulation of the United Kingdom; for although the parts affecting Scotland and Ireland formed different bills, still it may really be considered as a single Act.

As before mentioned, at the renewal of the charter in 1833, the Government reserved the power of declaring the exclusive privileges of the Bank of England at an end in 1844. In the month of April of that year a correspondence was opened by Mr. Goulburn, the Chancellor of the Exchequer, with the Governor and Deputy-Governor of the Bank as to the new enactments proposed by the ministry; to which, after ineffectual efforts on the part of the Bank to obtain better terms as regards the amount to be paid in lieu of stamp duty, the consent of the court of directors was given.

The main object in view in these changes was 'to place the general circulation of the country on a sounder footing, and to prevent as much as possible fluctuations in the currency, of the nature

of those which have at different times occasioned hazard to the Bank, and embarrassment to the country.'*

As to the success of the means employed to attain this end opinions vary greatly, and the names on either side of the question are of very high authority. Want of space prevents the arguments being fully stated here: suffice it to remark that the advocates of the Act have a *primâ facie* case against them, inasmuch as neither in 1847, 1857, nor 1866, did it, *when in operation, prevent* the panic, although *when suspended* a better state of feeling immediately arose.†

The clauses of the Act relative to the Bank of England are as follows:—1st. That on and after the 31st August, 1844, the issue of bank-notes payable on demand by the Bank of England should be separated and thenceforth kept wholly distinct from the general banking business, and should be carried on by a separate department, entitled 'The Issue Department of the Bank of England.'

2nd. That on the 31st August, 1844, there should be transferred to the Issue Department securities to the value of 14,000,000*l.* (of which the debt

* Mr. Goulburn's Letter, April 16, 1844.
† Vide extract from the 'Times.' Appendix.

due by the public should be deemed a part), and also any gold and silver not required for banking purposes; and thereupon the Issue Department should deliver to the Banking Department such an amount of notes as should, together with those in the hands of the public, be exactly equal to the aggregate amount of securities, gold, and silver transferred to the Issue Department. The Bank was forbidden to increase the securities in the Issue Department, but it might decrease them at pleasure, and again increase them up to the limit.

After the transfer the Issue Department could only issue notes in exchange for other notes, or for gold and silver coin or bullion, either to the banking department or the public generally.

3rd. That the silver bullion held by the Issue Department should not at any time exceed one fourth part of the gold coin and bullion.

4th. That after August 31, 1844, all persons should be entitled to demand notes for standard gold, at the rate of 3*l.* 17*s.* 9*d.* per ounce, the assay to be conducted by persons approved by the Bank, and the expense thereof to be borne by the seller.

5th. That if any banker, who on May 6, 1844, was issuing his own notes, should cease to do so,

it should be lawful for the Privy Council, on the application of the Bank of England, to authorise the increase of the securities in the Issue Department beyond 14,000,000*l.*, by a sum not exceeding two-thirds of the issue so discontinued, and thereupon to issue notes to that amount; the authority for so doing to be published in the next 'Gazette.'

6th. That the accounts of the Bank should be published weekly in the 'London Gazette.'

7th. That Bank of England notes should be freed from stamp duty.

8th. That the sum paid by the Bank for its exclusive privileges should be raised from 120,000*l.* to 180,000*l.* per annum; and all profits arising from increased issues (under clause 5) should be paid to the public.

9th. That it should be lawful for the Bank, up to August 1, 1856, to compound with banks of issue to discontinue their own notes, and substitute those of the Bank at the rate of 1 per cent. per annum, the amount of such composition to be deducted from the sum paid by the Bank to the public.

10th. That the Bank of England should retain all privileges not abolished by this Act till twelve months' notice had been received by the Bank,

which notice might be given after August 1, 1855, and after repayment by the public of all debts due to the Bank.

The authorised circulation has, in accordance with the provisions of the fifth clause, been thrice increased: viz. in December 1855, 475,000*l.*; July 1861, 175,000*l.*; January 1866, 350,000*l.*, which brings the fixed issue of the Bank, exclusive of that against bullion and coin, to 15,000,000*l.*

The clauses in the Act of 1844 respecting country banks are also of great importance; they are as follows:—

1st. That no person other than a banker who on May 6, 1844, was issuing his own notes, should, after the passing of the Act, have the power to do so in any part of the United Kingdom.

2nd. That after the passing of the Act it should not be lawful for any banker to draw, accept, make, or issue in England or Wales any bill of exchange, promissory note, or engagement for the payment of money to bearer on demand, or to borrow, owe, or take up any sums of money on the bills or notes of such banker payable to bearer on demand, except such bankers as were on May 6, 1844, issuing their own notes, who should, under restrictions hereafter named, continue to do so. The

rights of any existing firm should not be affected by the admission or retirement of partners, provided the number did not exceed six.

3rd. That if a bank of issue should discontinue issuing, whether from bankruptcy or other cause, it should not be lawful to resume.

4th. That every banker claiming to issue notes should give notice to the Commissioners of Stamps and Taxes, the place, name, and firm, at and under which he had issued notes during the twelve weeks preceding April 27, 1844. That the average amount in circulation for those twelve weeks should be ascertained, and it should then be lawful for the bank to continue to issue notes, provided that on an average of four weeks the certified sum should not be exceeded.

5th. That if during the twelve weeks preceding April 27, 1844, two banks of issue had amalgamated, it should be lawful for the united bank to issue notes to the aggregate amount of each separate bank.

6th. That the Commissioners of Taxes should publish in the 'Gazette' a statement of the authorised issue of each bank.

7th. That if, after the passing of the Act, two banks amalgamated, the aggregate amount of the

notes of each separate bank should be the authorised amount of the united bank, provided the total number of partners did not exceed six, in which case the privilege of issuing notes should cease.

8th. That if, on an average of four weeks, it should appear that any banker had exceeded his authorised issue, he should forfeit a sum equal to the excess.

9th. That every bank of issue should make a weekly return to the Commissioners of Taxes of the amount of notes in circulation each day of the week, and every four weeks of the *average* amount during that time, these returns to be published in the 'Gazette.' A false return to be punished by a fine of 100*l.*

10th. That the average should not exceed the amount certified by the Commissioners.

11th. That the Commissioners should have the power to examine and make extracts from bankers' books.

12th. That every banker should, on January 1 in each year, forward to the Commissioners aforesaid the name, residence, and occupation of each member of the firm, which particulars should be published in the local newspapers.

13th. That banks of issue having branches should be required to take out a licence for each branch, with this exception, that banks in existence prior to this Act, and having already four licences, should not be required to increase that number.

14th. That after the passing of the Act, it should be lawful for any number of persons, though exceeding six, carrying on the business of banking in London, or within sixty-five miles thereof, to draw, accept, or indorse bills of exchange, not being payable to bearer on demand, any Acts to the contrary notwithstanding.

It strikes one at once on reading over this Act, that the great means to the end of 'placing the general circulation of the country on a sounder footing,' in the opinion of Sir Robert Peel, was to sweep away all banks of issue except one, which was to be tied down to an arbitrary amount under all circumstances, as, of course, the exchange of notes for gold is no increase to the currency, but simply a convenience to the public.

It would seem, indeed, that it was no feeling of consideration for the country banking interest which procured it terms even as advantageous as these; on the contrary, a fear that hostility on the

part of the bankers would endanger the success of the measure, and, possibly, the knowledge that it would cause considerable inconvenience in the country, was the reason of the leniency shown by Sir Robert Peel to the banks of issue; otherwise he would probably have finished at once what will now be a work of time; viz. the extinction of the country note issue.

Sir Robert Peel avowed his own predilection for a central bank of issue, and it appears from his tone that he would have preferred the establishment of a new bank for the purpose, under the auspices of Government.

In the speech he made at the introduction of this measure, he laid great stress on the evils of uncontrolled competition amongst banks of issue, and adduced the American banks as an instance of the truth of his views; but, singularly enough, overlooked the Scotch banks, which were entirely unrestrained, and of whose solvency and respectability there was no question.

Banking authorities are almost unanimous in asserting that with a note circulation convertible into gold on demand it is impossible to force it beyond the requirements of trade, for it will be either returned in exchange for gold or be

made a deposit, but certainly in some way returned to the issuer.

The following figures will show the effect of the Act of 1844 on the issues of country notes. At the passing of the Act there were in England and Wales, issuing notes :—

204 Private Banks with authorised issues amounting to	£5,153,407
72 Joint-Stock Banks	3,495,446
	£8,648,853

Of these the following have, from a variety of causes, discontinued their issues :—

71 Private Banks with authorised issues amounting to	£1,089,895
15 Joint-Stock Banks	719,632
	£1,809,527

Leaving the fixed issues of the country banks at present (May, 1866) as follows :—

133 Private Banks with authorised issues of	£4,063,512
57 Joint-Stock Banks	2,775,814
	£6,839,326

In practice no bank can keep up to its fixed issue for fear of being in excess on the average of four weeks; when banks have numerous branches the amount reserved is necessarily a large proportion.

The Bills regulating the Irish and Scotch banks were not passed until 1845, and are materially different in their provisions to the one just described.

The only legal tender in the sister countries is gold.

Irish and Scotch banks have the privilege of issuing notes as small as 1*l.* Like the English banks they have fixed issues. In practice there is this difference, that whilst in England the limit cannot be exceeded, in Ireland and Scotland it can, if the bank has gold and silver to the amount of the excess. Weekly returns are made as in England, but the large and small notes must be divided, and the total of gold and silver shown.

In Ireland there are six banks of issue, whose fixed issues amount to 6,354,494*l.*

In Scotland there are thirteen banks of issue, and their total issue is 2,749,271*l.*

The fixed issues of the United Kingdom are at present (May, 1866):—

Bank of England	£15,000,000
English Private Banks	4,063,512
„ Joint-Stock Banks	2,775,814
Irish Banks	6,354,494
Scotch Banks	2,749.271
Total	£30,943,091

Passing from the consideration of this important Act of Parliament, it becomes necessary to make some few reflections prompted by the facts, and shortly to notice the various opinions and theories respecting the proper regulation required on the one hand to secure the convertibility of the note, and on the other to keep the issues within due bounds. Intimately connected with these two points, is the arrangement necessary to insure an adequate supply of the precious metals. In entering upon the consideration of this most important element in our financial system, it is well to remark that however great may be the present necessity that the paper currency of this kingdom should be based securely, and conducted on the soundest principles, the question is not of that vital importance to the country that it was a century ago, when it would have been thought impossible to have carried on the business of a banker without having a large note issue. We now see many of the greatest banks in every sense of the word who have never issued notes, and some of the most prosperous who have done so discontinuing the practice; thus clearly showing that it is by no means essential to the prosperity of a banker to have the privilege. Largely

as the trade of this country has increased in all its branches, it is a fact well known to all connected with financial matters, that the note circulation slowly but certainly diminishes; a fact suggesting rather a singular reflection, and showing the fallacy of the ideas that were generally received on the subject. The decrease of that branch of banking which last century was deemed the most important, may now be taken as a very good proof of the enormous increase of the business in general. Doubtless it will be argued by many that, as regards the country bank-notes, this is the effect of the legislative measures of 1844, and to a certain extent that view may be accepted as correct; but if the returns in the 'Gazette' be examined, it will be found that many bankers are always below their authorised issues by from 25 to 50 per cent., some even more.

These remarks are by no means intended to imply that the proper regulation of the paper currency is of secondary importance; and, later, it will be desirable to consider whether some improvement might not be made on our present system.

Fifty or sixty years ago it was no uncommon opinion that a circulating medium of any descrip-

tion, save and except the precious metals, was vicious in principle. Of late years only one writer (we believe) has gone to this length; he, however, in a work, published within the last twenty years, evidently considers paper currency and the pressure of the national debt to be evils so gigantic, that nothing short of the abolition of the one and the repudiation of the other will redeem the hopeless condition of the nation—'once high-spirited, happy, rich, free, and great, brought down to the state of a set of spiritless, half-starved, corrupted, and bewildered slaves by a body of usurers and villains as contemptible as any that ever made the sun blush to shine upon them, or the winds of heaven unable to blow over them without nausea and loathing.'

The theories that have at different times been started as to the right and proper regulations that should govern a paper currency, have been almost as numerous as the writers on the subject. There is the celebrated theory of Mr. Law, that notes may be safely issued by the owners of land or commodities, to the value of such property; and truly it is a most taking idea, it having been tried in France, America, and in our own country, and has always ended disastrously, when pushed to its

logical conclusion. The only reason for noticing it here is to point out that in a modified form we have it still in force. The Act of 1844 gives the Bank of England the power of considering that portion of its capital which has been lent to the Government, and over which it has lost all control, as a part of the security on which the issues of notes are based. It is true that, going as it does, to a limited extent, no danger to the community can possibly arise, still the principle is the same as that advocated by Mr. Law.

It has been thought that an extension of note issues had the same effect on the country that an influx of the precious metals had, and in the case of an *inconvertible* paper currency, for a time it does seem to have that effect; as notes are issued prices rise rapidly, and all seem getting rich until time proves such a notion to be entirely fallacious.

It would be simply a waste of space to argue for, or attempt to show the advantages of, an inconvertible paper currency, public opinion in this country having so emphatically decided that it should be convertible; and legislation following in its wake, has done what was possible to ensure this absolutely, so far as Bank of England notes are

concerned, by fixing the price at which gold can be demanded at the Bank in exchange for notes. In the case of country bankers in England and Wales, their issues may be based on either gold or Bank of England notes, the inability to furnish either in exchange for their own notes being deemed proof of bankruptcy.

To secure the absolute convertibility of the note, it is necessary that there should be a basis of bullion, and so long as a due proportion between the issues and the precious metals is preserved, so long is convertibility ensured.

Parliament thought it impossible that under any circumstances the Bank of England notes in the hands of the public could fall below 14,000,000*l.*, and therefore only required the amount beyond that to be secured by bullion. But as matters now stand, the Bank issues 15,000,000*l.* against securities, thus showing that the authorised country issues have since 1844 been diminished by at least 1,500,000*l.*, though practically the reduction is much more considerable. It is, therefore, a very fair subject for consideration, whether the fixed issue of the Bank of England might not be advantageously increased, still at present the balance of opinion is certainly in

favour of the present limit, although at every recurrence of 'tightness' in the money market, an outcry is raised that it is owing to the restrictions on the Bank.

As to the sum either in Bank paper or coin required to protect country issues, the legislature has left the bankers entirely to their own discretion, and it hardly seems possible to fix a uniform proportion for the whole kingdom, some districts being much more liable to large and sudden demands than others.

Sir Archibald Alison, in his 'History of Europe,' considers that the circulating medium (i.e. coin and notes) should as much as possible be kept to a fixed amount, that when gold is exported notes should be issued to supply its place; if bullion be imported notes should be withdrawn from circulation. But then the difficulty arises, if gold be exported and the vacuum supplied by paper, and the rate of interest not at the same time raised, in all probability the drain will continue, and in course of time the convertibility of the note would be endangered, if not destroyed. Moreover, with a brisk trade a larger amount of the circulating medium is required than at a time when commerce is languishing, so that the dead level

which Sir Archibald advocates is scarcely desirable. To a certain extent, in ordinary times, his object is attained by the arrangement prohibiting the Bank of England from issuing notes beyond a fixed limit, unless an equal amount of gold be withdrawn from circulation; but on the occasions since this restrictive enactment has been in force, when serious monetary panics have taken place, as in the autumn of 1847, and 1857, it has been found to intensify existing evils, and has been temporarily suspended with the best possible results.* The friends of the Act of 1844 say, and say truly, that neither in 1847 nor 1857 was the convertibility of the note endangered; but when they attempt to show that this was a result of Sir Robert Peel's Act their case at once breaks down. Convertibility was as safe before as after the passing of that Act; the directors of the Bank of England would have been in care to provide for that, whoever might have suffered in the effort. But supposing that through any chain of circumstances, at the periods in question, the bank-note had fallen into discredit, how would the case have then stood? When the suspensions of the Act of 1844 took place in 1847 and 1857 the

* Vide Appendix.

state of things in the Issue Department was as follows:—

October 23, 1847.	
Notes in the hands of the public . .	£21,000,000
Bullion	7,866,000
November 12, 1857.	
Notes in the hands of the public . .	£21,000,000
Bullion	6,524,000

thus showing that the *absolute* inconvertibility of the note was not secured.

But if the Issue Department was not safe, how did the Banking Department stand?

October 23, 1847.	
Private Deposits	£8,580,000
Notes and Coin in reserve	2,094,000
November 12, 1857.	
Private Deposits	£12,935,000
Notes and Coin in reserve	1,461,000

Now, looking at these figures, although it is very clear that if gold had been demanded at the counter in the 'Hall' for more than a third of the notes in circulation the demand could not have been supplied, practically no danger was to be apprehended on this head, for the public were only too anxious to get the notes; but there was a real and tangible danger to the banking department—so great, indeed, that had not the Government intervened, a suspension of payment must

have taken place, although millions of bullion were in the vaults; and will any one seriously affirm that this would not have been a disaster, by the side of which the temporary inconvertibility of the note would have been mere child's play, entailing as it would have done the absolute suspension of business throughout the country?

There seems to be a strong feeling that it is necessary to restrain the Bank of England, and, indeed, all the banks of issue, from abusing their privileges by stringent regulations, but a very great diversity of opinion exists as to the best means of attaining that object. It has been proposed that the Bank of England should not be controlled directly in its issues, but that it should adopt a graduated rate of interest founded on the amount of notes in circulation, and bullion in the vaults. There are, however, so many points to be taken into consideration in deciding upon raising or lowering the rate of interest, that it seems very unjust to tie the hands of the directors in so important a particular; it would greatly impede them in their duties to both the holders of bank stock, and also to their customers. Moreover, in proposing such an arrangement, there is involved the assumption of a fallacy that the Bank

of England has the command of the rate of interest, which it most undoubtedly has not; that institution, like any other, must follow the market; if the rate out of doors be 5 per cent. it would be simply childish of the directors to fix their rate at 6 per cent.; the only effect of such a course would be to diminish the dividend on Bank Stock, because, although notes would flow in as securities ran off, they would be drawn out again through the depositors. It may, perhaps, be said that the rate of interest outside the Bank of England corresponds to the terms exacted by that establishment; but the fact that it does so only proves that the opinion of the public coincides with that of the Bank directors.

Of course, in fixing the rate of interest, the amount of the reserve of notes and bullion is a most important element, not only as to the resources of the Bank, but as a monetary barometer showing the state of the atmosphere of the money market. Still it will not do to treat a foreign drain of gold in the same way as a domestic one, the latter being invariably of a special, and generally of a temporary nature.

In a most able article published in 'Blackwood's Magazine' for March 1866, well worthy of the

attentive perusal of all interested in this and kindred subjects, the writer strongly deprecates the obligation imposed on the Bank of keeping the security for the notes in the form of bullion. He argues most justly and forcibly that a drain of gold does not take place through the Issue Department, and that the only demands for gold through that department are for the supply of small change. He therefore proposes that the Issue Department should transfer the bullion to the Banking Department, receiving Government securities in exchange, and that in future notes should be issued entirely against such securities. The effect of this would be to increase the strength of the reserve in the Banking Department to an enormous extent, as the whole of the bullion would be available. There remains the question whether if that were so, the temptation to allow this unprofitable portion of their assets to fall to a low figure, and thereby increase the profits of the Bank, might not be too great for the virtue of the authorities.

It is here as well to remark a slight error into which the writer of the article in 'Blackwood' has fallen: he speaks of the depositors at the Bank having an equal claim on the bullion in the

Issue Department as the holders of notes, which is clearly contrary to the spirit and letter of the Act of Parliament.

Respecting the issues of country notes, there being no security whatever provided for them, it seems that it would be but an act of justice to declare that in cases of bankruptcy, the holders of notes should have their claims settled before the depositors or other creditors.

With reference to the larger part of the question, the regulation of Bank of England issues, the space prescribed to this branch being exhausted, it must suffice to say that for fair weather the Act of 1844 works, or rather leaves other things to work, tolerably well; but in times of commercial panic it is more than questionable whether it does not aggravate and intensify existing evils.

CHAPTER X.

OF COINS.

THE earliest mention that is made in authentic history of the use of a metal currency occurs in the 23rd chapter of Genesis, where Abraham bought the field of Macpelah for 400 shekels of silver—one shekel was about 2*s.* 3½*d.* A talent was 3,000 shekels, or 342*l.* 3*s.* 9*d.*; a talent of gold, 5,475*l.*—both Jewish. With whom the talent originated, or when, is not recorded. The Jews were in the habit in those times of weighing their money in scales, which they carried about with them for the purpose. The earliest mention of coins is made in 1 Chron. xxix. 7, and Ezra, ii. 69, where the Persian coin, the daric, is spoken of, which was of gold, value 2*s.*, having an impression on one side of an archer kneeling. Gold was used by the Egyptians before silver—the latter was called by them white gold; both metals were afterwards used for their currency, being made up

in the form of rings, without, however, any stamp or indication of their purity or weight; these rings were generally weighed in the gross against other weights in the shape of oxen and lambs, which tedious process continued as late as the time of the Ptolemies, and was only gradually superseded by Grecian coins. It is recorded that Aryandes, Governor of Egypt, struck silver coins in imitation of the golden ones of the Persian empire, for which invasion of prerogative the king struck off his head. On the Persians quitting the country these coins were discontinued. The earliest mention of a coin with any pretension to a value of its own stamped upon it was the Lydian 'stater,' a Greek coin, a mixture of gold and silver, as three to one. They were simply lumps of metal struck on one side only, leaving the impression of a lion's head or other emblem. Darius was the first to introduce coins of real gold, though it would seem that they were intended as medals, and afterwards used as coins. The ring money before spoken of was circulating in Britain previous to the invasion of the Romans. We learn from Cæsar that the Gauls also used iron and gold rings of certain weights for their money. The gold rings have been discovered at no distant date in

Ireland. These Irish rings possessed much more the features of a true coinage than the pieces of metal used by the Egyptians, as the larger ones have been found on being weighed to be multiples of the small ones or units. The Roman coinage ceased in Britain, and was succeeded by the Saxon on the Romans leaving the country, A.D. 426. Herodotus gives Pheidon, King of Argos, the credit of having first introduced weights, measures, and coins into Greece, the coins having been struck at Ægina, being also lumps of metal like the Lydian, with the impression of a turtle or tortoise stamped on one side. Silver was the only currency in Greece until the time of Crœsus, who is said to have given Alcmæon as much gold as he could carry. The gold coinage of Persia and other nations circulated at Athens until the time of Alexander the Great, when both gold and copper coins became common. The most worthless currency of which we find record was that of Sparta, where the native iron, so tempered as to be useless for any other purpose, was formed into little bars and employed as legal currency; also leather is said to have been used for the same purpose. This extraordinary proceeding seems to have originated with Lycurgus, who having travelled much in other

countries, was at length recalled to quell the feuds in his own. Having convinced himself, like many modern philosophers, that money was the root of all evil, he conceived the idea of prohibiting the use of gold and silver to his countrymen, and we find that up to the latest age of the state it was forbidden to any Spartan to possess gold or silver. The Hollanders used pasteboard as late as 1574. On renouncing all such articles as leather and shells, countries will be found to have adopted the metals most easily obtainable. The Greeks used silver; the Egyptians gold; Italy copper, &c., and they stamped them with a device representing wealth, such as cattle and sheep—whence *pecunia* and the Greek coin *βοῦς*. The florin also from fiorino, the Florentine lily. The original Roman coin was the 'as,' which as time wore on they reduced from 12 oz. to 1 oz., whereby they reduced their debt in a like proportion.

Having thus briefly touched upon ancient money and coins, simply as an introduction to the coinage of Great Britain, we shall pass on to the time of Athelstan, A.D. 925: Should the foregoing remarks create a desire in the reader to become familiar with the coinages and articles used formerly as money in other countries, we can

recommend the work entitled 'Ruding's Annals of the Coinage,' published about the year 1840 or 1841, and for silver coins only, 'Hawkins on the Silver Coinage' (the latter of England only).

Here follows the coinage of England from Athelstan, A.D. 925, to Victoria, for which we are much indebted to W. S. W. Vaux, Esq., M.A., &c. &c., of the British Museum, and President of the Numismatic Society.

The denominations only of the coins are given as they were issued in the different reigns:—

Coinage of England.

Athelstan, A.D. 925, to Henry II., A.D. 1189, silver pennies only.

Richard I.		No English money.
John		No English money.
Henry III.	*Gold*	Pennies.
„	*Silver*	Pennies.
Edward I.	*Silver*	Groats, pennies, halfpennies, farthings.
Edward II.	*Silver*	Pennies, halfpennies.
Edward III.	*Gold*	Florin, half-florin, quarter-florin, noble, half-noble, quarter-noble.
„	*Silver*	Groat, half-groat, penny, halfpenny, farthing.
Richard II.	*Gold*	Noble, half-noble, quarter-noble.
„	*Silver*	Groat, half-groat, penny, halfpenny, farthing.
Henry IV.	*Gold*	Noble, half-noble.
„	*Silver*	Groat, penny, halfpenny.
Henry V.		No English money.
Henry VI.	*Gold*	Angel, angelet.
„	*Silver*	Groat, penny, halfpenny.

Henry IV. V. or VI.	*Gold*	Noble, half-noble, quarter-noble.
„	*Silver*	Groat, half-groat, penny, halfpenny, farthing.
Edward IV. . . .	*Gold*	Rose-noble, half-noble, quarter-noble, angel, angelet.
„	*Silver*	Groat, half-groat, penny, halfpenny, farthing.
Edward V.	*Gold*	Angel, angelet.
„	*Silver*	None.
Richard III. . . .	*Gold*	Angel, angelet.
„	*Silver*	Groat, half-groat, penny, halfpenny, farthing.
Henry VII. . . .	*Gold*	Sovereign, rose-noble, angel, angelet.
„	*Silver*	Shilling, groat, half-groat, penny, halfpenny, farthing.
Henry VIII. . . .	*Gold*	Sovereign, half-sovereign, rose-noble, crown, half-crown, angel, half-angel, quarter-angel, George-noble.
„	*Silver*	Shilling, groat, half-groat, penny, halfpenny, farthing.
Edward VI. . . .	*Gold*	Three-pound piece, sovereign, double-sovereign, half-sovereign, quarter-sovereign, half-crown, angel.
„	*Silver*	Shilling, groat, half-groat, crown, half-crown, penny, halfpenny, farthing.
Mary	*Gold*	Sovereign, royal, angel, half-angel.
„	*Silver*	Half-crown, shilling, sixpence, groat, half-groat, penny.
Philip and Mary . .	*Gold*	None.
„	*Silver*	Half-crown.
Elizabeth	*Gold*	Sovereign, pound-sovereign, half-pound, quarter-pound, half-quarter pound, royal, angel, half-angel, quarter-angel.
„	*Silver*	Crown, half-crown, shilling, groat, half-groat, penny, sixpence, three-pence, twopence, three halfpence, three farthings.

James I.	*Gold*	Rose-royal, spur-royal, angel, half-angel, pound-sovereign, unite, laurel, half-sovereign, half-unite, double-crown, half-laurel, quarter-sovereign, Britain-crown, quarter-laurel, thistle-crown, half-crown.
„	*Silver*	Half-groat, shilling, sixpence, half-crown, crown.
„	*Copper*	Pennies.
Charles I.	*Gold*	Three-pound piece, angel, unite, double-crown, British-crown.
„	*Silver*	Twenty-shilling piece, crown, half-crown, shilling, sixpence, groat, threepence, half-groat.
„	*Copper*	Pennies.
Oliver Cromwell . .	*Gold*	None.
„	*Silver*	Crown, half-crown.
„	*Copper*	Farthing.
Commonwealth . .	*Gold*	Unite, half-unite, crown.
„	*Silver*	Crown, half-crown, shilling, sixpence, half-groat.
Charles II.	*Gold*	Twenty-shilling piece, double-crown, crown, five-guinea piece, two-guinea, one-guinea, half-guinea.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Halfpenny, farthing.
James II.	*Gold*	Five-guinea, two-guinea, one-guinea, half-guinea.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Halfpenny, farthing.
William and Mary .	*Gold*	Five-guinea, two-guinea, one-guinea, half-guinea.
„ . .	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Halfpence, farthing.

William III. . . .	*Gold*	Five-guinea, two-guinea, one-guinea, half-guinea.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Farthing.
Anne	*Gold*	Five-guinea, two-guinea, one-guinea, half-guinea.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Halfpenny, farthing.
George I.	*Gold*	Five-guinea, two-guinea, one-guinea, half-guinea, quarter-guinea.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Halfpence.
George II.	*Gold*	Five-guinea, two-guinea, one-guinea, half-guinea.
„	*Silver*	Crown, half-crown, shilling, six pence, fourpence, threepence, twopence.
„	*Copper*	Halfpence.
George III. . . .	*Gold*	One-guinea, half-guinea, seven-shilling piece, quarter-guinea, sovereign, half-sovereign.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Twopence, penny, halfpenny, farthing.
George IV.	*Gold*	Double-sovereign, one-sovereign, half-sovereign.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	Farthing.

William IV. . . .	*Gold*	Sovereign, half-sovereign.
„	*Silver*	Crown, half-crown, shilling, sixpence, fourpence, threepence, twopence.
„	*Copper*	None.
Victoria	*Gold*	Sovereign, half-sovereign.
„	*Silver*	Crown, half-crown, florin, shilling, sixpence, fourpence, threepence.
„	*Copper*	Penny, halfpenny, farthing.
„	*Bronze* (1860)	Penny, halfpenny, farthing.

Athelstan, we are informed, was the first to establish uniform coin in England, and after that time the kings became the bullion merchants and coiners.

The royal mint was established in the reign of Edward II. There were also several provincial mints under the control of that of London. Henry II. instituted one at Winchester, 1125. Stow informs us the mint was kept by Italians, the English being ignorant of the art of coining, 7 Edward I., 1278. The operators were formed into a corporation by charter of Edward III. The first entry of gold into the mint for coinage purposes occurred 18 Edward III., 1343. Tin was coined by Charles II., 1684; gun metal and pewter by his successor, James. The present mint, for the erection of which grants were made between 1806 and 1810 to the amount of 262,000*l.*,

was partially destroyed by fire in 1815. The new constitution of the mint took effect in 1817. The mint has eight melting furnaces, two cranes, and two pouring machines. The furnaces are used three times a day when coining is going on, and as each pot is about 420 pounds, they melt 10,080 pounds in a day of ten hours. The gold pots are about 100 pounds, and melt it in an hour. The gold bars are rolled cold to the thickness of the coin, and the silver bars hot. The old hammer and punch were superseded by the mill and screw in the reign of Queen Elizabeth, to whose ministers we are greatly indebted for the restoration of the coinage. They also stamped the coins with their true value, so that persons who held the debased coins lost about five-sixths by such operation, for which they had mainly to thank Henry VIII., during whose reign the currency had been allowed to sink to such a degraded state. The number of coins issuing from the mint each year varies considerably according to circumstances, such as depreciation by abrasion, &c.

We subjoin the gold, silver, and copper or bronze coinages for the four years from 1859 to 1862, taken from the statistical abstract presented by command to both Houses of Parliament:—

Years.	Gold.	Silver.	Copper or Bronze.	Total.
1859	2,649,509	647,064	8,512	3,305,085
1860	3,121,709	218,403	37,990	3,378,102
1861	8,190,170	209,484	273,578	8,673,232
1862	7,836,413	148,518	352,800	8,337,731

The gold coins at present in use in Great Britain are, first, the £ sterling or sovereign. £ signifies pounds, from the Latin 'libræ;' sterling is the contraction of easterling, and is supposed to have been first adopted in the reign of Henry VII., being derived from the festival of Easter,* when Government officials visited the Mint and examined the coinage. The sovereign was first minted by Henry VII., and was then a 20*s.* piece. Twenty-two and a half of these pieces were coined from the pound tower; and the pound tower containing 5,400 grains, there were 240 grains of gold in each coin. The sovereign at present in use contains 113·12 grains of pure gold, so that the sovereign of Henry VII. was intrinsically worth 2*l.* 2*s.* 5*d.* of our money. On July 1, 1817, a coin in imitation of the one coined by Henry VII. was proclaimed

* Easter is derived from 'Eastra,' the Saxon goddess, whose festival fell in April.

current, and to be of the value of 20*s*., called a sovereign. It weighed 5 dwts. 3·274 grs. of standard gold.* Henry VIII. debased the gold coin from 23 carats 3½ grs. fine, with ½ gr. of alloy, to 22 carats pure and 2 of alloy. He also debased the silver to 4 oz. fine and 8 of alloy; that is to say, by successive stages during his reign it reached that debased state.

Two neighbouring kingdoms, Scotland and France, we find were even in a worse condition. The pound Scots had become reduced to $\frac{1}{36}$ part of its original value. The pound weight, which is now coined into 66 shillings, was coined into 144 shillings in the year 1475; and from that, by gradual reductions or debasements, was coined into 720 in 1601. The French, we find, were still worse than the Scotch, judging from an extract taken from the Mint Indenture of Edward I. Their 'sou,' corrupted from 'solidus,' meaning a shilling, now represents a halfpenny of our money; the 'livre' nearly corresponded to the modern franc at the termination of the old monarchy.

* On Saturday, Feb. 3, 1866, at a privy council, it was ordered that the sovereign of the Sydney mint, in Australia, should be proclaimed a legal tender in this country, and in all British possessions. In Mauritius and Ceylon it has for some time been legal currency, and it will now have imperial circulation.

The standard purity of the sovereign underwent many changes until fixed by James I. at 22 carats as the standard purity, which has remained without alteration up to the present time. The carat is the 24th part of a pound troy, or 10 dwts.; and the carat grain, 2 dwts. 12 grs. troy. The legal weight of the sovereign is 5 dwts. 2¾ grs. The half-sovereign was coined also on July 1, 1817, and what has been said of the sovereign with respect to weight and fineness applies to it also. Of the silver coinage, the florin, shilling, sixpenny piece, and threepenny piece, are to remain permanently in circulation until some further decimal change takes place. The crown or five-shilling piece, the half-crown and fourpenny piece, are no longer coined, and only remain in circulation until they are so defaced that the Bank will be compelled to withdraw them. The florin, as we have before observed, derives its name from 'fiorino,' the Florentine lily; this is the only alteration since 1817 (with the exception of the bronze coinage) that has taken place, and was coined with the intention of introducing the decimal system.

In 1503 (the 18th of Henry VII.) the old Saxon money of account, the shilling, was converted into a coin. It contained 144 grains of silver; and, as

our modern shilling contains 80·7 grains, it was intrinsically worth 1*s.* 9·408*d.* of our money. The Irish shilling was struck in 1560. English and Irish money was assimilated January 1, 1826. The weight of a shilling is 3 dwts. $15\frac{8}{11}$ grs. The groat is derived from 'grot,' which signifies great, it being the largest of the Saxon coins then in use. The division of the pound into 20*s.*, and the shilling into 12 pence, was introduced by William the Conqueror after the plan of Charlemagne in France in the eighth century, and is supposed to be derived from the Romans. The ancient silver penny is said to have been the first silver coin in use among the Anglo-Saxons. It was coined with a cross deeply indented, so that it might be broken in two or four pieces. This peculiarity ceased with Edward I.

Charles I. issued silver coins of $7\frac{3}{4}$ grs., called silver pennies, of the same weight and purity as those issued by his father. This coin was not circulated after the Restoration of Charles II. The lowest silver coin struck after this silver penny was the sixpence. The silver coins are not now legal tender for sums above 40 shillings. The coins smaller than this were used for Maunday money. The Maunday money consisted of 4, 3, 2, and

1 penny pieces in silver, which were distributed among the poor the Thursday before Good Friday; called Maunday Thursday from *mande*, signifying a hand-basket, from which the alms are supposed to have been distributed. Another authority says, from 'dies mandati,' as the day when Christ gave His great 'mandate' that we should love one another. This custom was begun by Edward III., A.D. 1363, when he was 50 years of age. On this day it was the custom of our kings or their almoners to relieve as many old men as they were years old. The custom still exists.

The copper coinage of England cannot be said to have existed until the reign of Queen Elizabeth. The want of a smaller coin than the silver penny caused the importation of large quantities of base coin from the continent for the convenience of people in trade, whose only means of using a part of the silver penny was by breaking it into two or four, which the cross deeply indented in the coin admitted of their doing. In the reign of Henry VIII., however, the traders being perplexed for want of small coins, commenced issuing private tokens of lead to represent halfpence and farthings. This went on through the succeeding reigns until the ministers of Elizabeth thought that a national

coinage of copper would be far preferable to this endless and confusing variety of tokens. The attempt failed, however; and, being revived in the reign of James I., failed again, as far as coining copper at the Royal Mint was concerned, and patents were granted to private persons. At length, in the year 1672, a coinage of copper took place at the Royal Mint. Nothing of any importance interfered with the copper coinage until December 1860, when the bronze coinage was introduced. The bronze coinage of 1861 (the first full year after its introduction) weighed 665 tons, and consisted of pence, halfpence, and farthings, to the number of 99 millions. The material of which it is composed consists of 95 parts of copper, 4 of tin, and 1 of zinc. Pence or halfpence are not legal tender for more than 12*d.*, or farthings for more than 6*d.*: *d*, signifying pence, is derived from 'denarii.'

The coinage of England, although superintended by Government officers (and any alterations that may be made are sanctioned by Parliament), is not issued by the Government. The Bank of England supplies the Government with bullion, as it would any other individual, for coinage purposes. The Bank of England has been for years the only importer of bullion into the Mint. It is, therefore,

hardly to be expected that the Bank or the Government, without the full concurrence of the country, would supply new and full-weight coin for those that have by circulation, and often ill-treatment, fallen below their legal weight. The Bank of England is compelled to meet this expense by charging the person tendering the light gold, at the rate of 4*d.* for the sovereign and 3*d.* for the half-sovereign; and is under a contract with the Government to retire from the currency the defaced silver.

The Government coins gold free of expense for any individual who sends bullion of not less than 10,000*l.* value; but these instances are of very rare occurrence. The whole of the coinage may be said to enter circulation through the Bank of England. The price paid for gold by the Bank is 3*l.* 17*s.* 9*d.* per oz., and the expense of the assay is borne by the seller. The privilege of coining silver and copper is vested solely in the Crown, who supply new coins for those retired from the currency by the Bank. The character and device of the coins of the present day are considered the prerogative of the Crown; and any impressions made afterwards by the people, by way of advertisement or otherwise, is punishable by law. It was

different, however, at Rome. Each family or individual might have their own silver coined with such device as they pleased, provided its weight and purity were guaranteed by an additional stamp made by the Government officers. This was abolished by Augustus.

The guinea, now withdrawn from the currency, took its name from the country producing the gold of which it was made. It varied in value from 20 to 30 shillings till the year 1717, when, by the advice of Sir Isaac Newton, it was fixed at 21 shillings. The last coinage of guineas took place in 1813.

The system existing previous to the year 1816, which made both metals standard measures of value, caused much disorder, as they were both a legal tender to any amount. Their market prices being subject to endless variation, one or other was constantly being driven out of circulation. To remedy this, gold being the metal in which the principal payments were made, it was adopted as the standard measure of value, and the only legal tender in coin that could be made to an unlimited amount. In the same year a new coinage of sovereigns took place, in due proportion to the guinea, viz. $46\frac{2}{10}$ sovereigns to the pound troy, and of 20

shillings value each. A new coinage of silver also took place, when 66 shillings instead of 62 (the old rate) were produced from the pound troy. The relative values of gold and silver having perceptibly changed at the end of the eighteenth century, the adjustment which had taken place in 1717 no longer corresponded to the existing market value of the metals; and consequently had a recoinage of silver taken place at the former denomination and weight, it must have disappeared from the circulation as before. To prevent this, the Government enacted that private persons should no longer enjoy the privilege of having their silver bullion coined; and in addition to this, the pound weight of silver was coined into 66 shillings instead of 62, the four shillings being kept back for the expenses of coinage. The present shilling, in consequence, passes for slightly more than 6 per cent. above its intrinsic value. But as the public must necessarily suffer by this arrangement, if silver were a legal tender to any amount, a law was passed enacting that no tender above 40*s.* in silver coin at one time should be legal. The silver coinage has since remained entirely in the hands of the Government, who, by judiciously limiting the quantity, have main-

tained the current value above the intrinsic value. The circulation of silver in Great Britain and her colonies is inconsiderable when compared with other countries. Gold being the only metallic legal tender for sums above 40*s*., the silver and copper or bronze are simply auxiliary coins. Wrought gold has two legal standards. The coin is 22 carats of fine gold, mixed with 2 of alloy; or, in other words, 8·333 alloy + 91·666 gold, which has undergone no alteration since the reign of James I. The silver, $\frac{37}{40}$, or 7·5 alloy + 92·7 silver. The nature of the alloy is left to the discretion of the Master of the Mint; but the practice has always been to add copper only to such extent as will complete the proportion of alloy, including that which may be naturally present in the bullion, whether gold or silver. The second gold standard is 18 carats, mostly employed for jewellery. Wrought silver has two legal standards. The other standard is better than the coin, being 11 oz. 10 dwts. out of 1 pound troy.

The standard of England is gold. France has a double standard, which causes more frequent fluctuations. The standard of most other European countries is silver. In countries where gold is

the standard, silver in by far the largest proportion is employed as merchandise, and *vice versâ*.

The decimal coinage, about which so much discussion has taken place—some in favour of 1*l.* as the integer, some in favour of the 10*d.* integer—is, we consider, so far from a satisfactory solution, that instead of discussing the methods proposed for adoption, we must refer our readers to the pamphlets on the subject by James Laurie and others, also the opinions of a committee of the House of Commons which was in favour of the 1*l.* integer. The decimal system was introduced into France in 1790, and, according to good authorities, works most unsatisfactorily.* It is adopted in America, where the dollar is the integer; also in Holland and other countries. Sir John Wrottesley brought the subject before the British Parliament February 25, 1824. In the year 1838 a commission was appointed at the instance of the then Chancellor of the Exchequer, Mr. Spring Rice. In June 1843, another commission was appointed—both reported strongly in its favour. On August 1, 1853, a committee reported to the same effect, but Mr. Gladstone thought the change premature. Another

* This has reference to the weights and measures.

commission on the subject was appointed in 1855; the last discussion took place in July 1863—the result was unimportant. The decimal system was adopted in Canada January 1, 1858.

There can be no doubt existing in the mind of any advocate of social progress, or even the most conservative of modern philosophers, that the decimal coinage is in every respect the best fitted to spare the time and trouble of persons whose business involves pecuniary calculations. Having had some years' experience of the working of the decimal system of *coinage* abroad, I can without hesitation assert, that all persons who come here from a country having a decimal system, are astonished that a land whose commercial position stands so high as that of England, can continue to puzzle the brains of her sons with a system which long ago should have been but a mere matter of history.

	English	French	German	Spanish	Italian
1	one	un	ein	uno	uno
2	two	deux	zwei	dos	due
3	three	trois	drei	tres	tre
4	four	quatre	vier	cuatro	quattro
5	five	cinq	fünf	cinco	cinque
6	six	six	sechs	seis	sei
7	seven	sept	sieben	siete	sette
8	eight	huit	acht	ocho	otto
9	nine	neuf	neun	nueve	nove
10	ten	dix	zehn	diez	dieci
20	twenty	vingt	zwanzig	veinte	venti
30	thirty	trente	dreissig	treinta	trenta
40	forty	quarante	vierzig	cuarenta	quaranta
50	fifty	cinquante	fünfzig	cincuenta	cinquanta
60	sixty	soixante	sechzig	sesenta	sessanta
70	seventy	soixante-dix	siebenzig	setenta	settanta
80	eighty	quatre-vingt	achtzig	ochenta	ottanta
90	ninety	quatre-vingt-dix	neunzig	noventa	novanta
100	hundred	cent	hundert	cien	cento
1000	thousand	mille	tausend	mil	mille
Day	day	jour	Tag	dia	giorno
Week	week	semaine	Woche	semana	settimana
Month	month	mois	Monat	més	mese
Year	year	année	Jahr	año	anno
On demand	on demand	à présentation	nach Sicht, bei Vorzeigung	á presentacion	a presentazione
At sight	at sight	à vue	a vista	á la vista	a vista
After sight	after sight	à jours de vue	nach Sicht	á ... dias vista	dopo vista
After date	after date	à jours de date	nach Dato	á ... dias fecha	dopo data
Pay to the order	pay to the order	payez à l'ordre	für mich, *or* uns, an die Ordre	á la órden	pagate a l'ordine
I promise to pay	I promise to pay	je payerai	werde ich, *or* werden wir bezahlen	pagaré	pagare
With interest	with interest	avec intérêts	mit Zinsen	con interés	con interesse

Portuguese	Dutch	Russian	Turkish	Danish	Swedish
hum, *m.* / huma, *f.*	een	odun	bir	en	en
douo, *m.* / duas, *f.*	twee	dba	iki	to	två
tres	drie	tru	utch	tre	tre
quatro	vier	tschetire	dirt	fire	fyra
cinco	vyf	piat	bech	fem	fem
seis	zes	schest	alti	sex	sex
sete	zeven	sem	yedi	syv	sju
outo	acht	votem	sekiz	otte	åtta
novo	negen	deviat	dokouz	ni	nio
dez	tien	desat	on	ti	tio
vinte	twintig	dvadzat	yirmi	tyve	tjugu
trinta	dertig	trudzat	otouz	tredive	trettio
quarenta	veertig	sorok	kirk	fyrgetive	fyrtio
cincoenta	vyftig	piatdesat	elli	halvtred / sindstyve	femtio
secenta	zestig	schestdesat	ultmish	tredsinstyve	sextio
setenta	zeventig	semdesat	yedmish	halvfierds / indstyve	sjuttio
oitenta	tachtig	vosemdesat	seksen	firsindstyve	åttio
noventa	negentig	devianosto	doxen	halvfems / indstyve	nittio
cem	honderd	sto	yuz	hundredre	hundra
mil	duizend	tisatz	bin	tusinde	tusen
dia	dag	den	guùn	dage	dag
semana	week	nedela	hafta	uger	wecka
mez	maanden	mesatz	aï	maaned	månad
anno	jaar	god	sène	aar	år
á presentação	op vertoon	po bziskam	isteghindé	paa anfordring	på anfordring
á vista	op zight, á vista	po predlavleni	ghiordughiunde	a vista	vid sigt
á . . . dias vista	dagen na zigt	po predlavleni	ghiordughiunden sora	efter sigt	efter sigt
á . . . dias data	dagen na dato	gato	tarihinden sora	efter dato	från dato
pagaşe á ordem	voor my, aan de order	nlat it order	emrinè ver	behag at, betale til ordre	behagar att, betala till ordre
pagarei	Ik neem aan te betalen	in obetschni	endemeyé soz veririm	jeg forpligter mig at betale	jag förpligtar mig att betala
com interesses	met interest	is prozentamu	faiz ila	med rente	med ränta

CHAPTER XI.

OF THE RATE OF INTEREST.

THE natural fluctuations in the rate of interest charged for the use of capital or its representative, money, are determined by the same causes which influence the price of any other commodity; namely, demand and supply. If there arises an unusual demand for any commodities, in the interior of a country, or from foreign lands, the extra production cannot take place without the aid of more money, and the price of that commodity by which the others are produced rises in proportion to the demand for its assistance. As the price of money rises, so will the price of the article produced advance in proportion until the demand for it subsides, when the price of the article and the rate of interest charged for the money to produce it return to their natural points.

A high rate of interest may prove the commerce of a country to be in a most flourishing and healthy condition, and it may also prove the

country to be on the verge of bankruptcy. In the autumn of 1865 we have seen the rate of interest standing very high in England, and going higher in 1866, but this was attributed to an increase in the trade generally of the country; large quantities of merchandise were shipped to America on the conclusion of the war, and this would of itself be sufficient to raise somewhat the price of capital or money.

There are many persons who maintain that bankers as a body desire to keep the rate of interest as high as possible; this view is held by the writer of an article in 'Blackwood's Magazine' for March 1866, on 'The Reform of the Bank of England,' and I do not hesitate to state that such is quite erroneous. On the first consideration of such a question, it will appear to the uninitiated in banking practice that a high rate of interest will be always for the benefit of bankers; but there are undercurrents at work here. In the first place, a banker always considers himself best off when his clients are well to do, and can obtain all they want to enable them to carry on their various trades prosperously, and if possible extend them. Now, when the rate of interest is high a merchant curtails his operations unless the profits promise a

corresponding augmentation, and even under such circumstances, the increased profit cannot long keep pace with the rise in the rate, as the pressure must be felt somewhere sooner or later; as a high rate of interest must be hurtful to those who are borrowers, and a large part of a banker's profits are derived from discounting bills and making advances to those who bank with him, it will stand to reason that no more money than will be sufficient to keep the accounts open will remain to the credit of the banker's clients so long as the rate continues unusually high. As the rate of interest rises, the deposits are withdrawn from the banks by all persons who understand how better to employ them, and it is unnecessary to remark that the number of persons who *do* remove their money for better investment is certainly increasing. It will thus be seen that, irrespective of the possible inconvenience which may be occasioned to the banker by having his deposits withdrawn, he may lose considerably more by the absence of the profit upon the withdrawn deposits than he gets by a higher rate of interest upon a probably diminished number of discounters. Then again, in obedience to a fixed law, as the price of the article increases, so do the bad debts increase.

A high rate of interest with any appearance of permanence is sure to fill the minds of the community more or less with alarm; and this feeling spreads very fast, as the price of money is so much a topic of conversation in all circles, and is generally most talked about, and the greatest distrust disseminated, where the question is the least understood. The banker—who will soon be made aware of any feeling of uneasiness which may be growing in the public mind—will find it necessary at an early stage to make preparations for fortifying his position; and the only effectual means by which this can be accomplished is by keeping a larger supply of cash upon his premises, which, as a matter of course, will occasion him a further loss; to invest it in the most saleable securities will scarcely answer his purpose, as he runs again a further risk of being obliged to sell at the moment when there is most pressure in the market, by which he suffers the loss from a fall in the price of the securities. To pursue a system of speculating in the funds or other securities is considered discreditable to a bank; and, therefore, unless consols, exchequer bills, &c., be purchased only for the purpose of having an interest bearing reserve, such transactions are better avoided.

In seasons of scarcity, when the rate of interest is high, the banker, in exercising increased caution, will make refusals, which in many cases will be sure to give offence; the persons refused will mention the fact to their friends, and probably state as the reasons that the banker was short of funds, which will increase the general want of confidence which then prevails, and further tend to embarrass the banker's position.

When the rate of interest is high, merchants and traders in many cases get into difficulties, and apply to the banker for assistance, stating that they have much property, but at the moment are unable to realise it. The banker makes an advance, a repetition of which is soon applied for, and, as we have seen in such innumerable instances, the banker continues to throw good money after bad, the termination of which, under the best circumstances, is an indefinite lock-up, which is among the most dangerous situations, if permitted to any extent, in which a banker can place himself.

The banker offering a high rate of interest in time of pressure is imprudent, as it gives rise to the opinion that he is short of funds, and wishes to attract them—which will probably result in more of his deposits being withdrawn.

After a panic or continued pressure in the money market has spent itself, money always becomes rapidly abundant, and the banker finds himself overrun with funds which he cannot employ, and which must remain for some time in his hands, causing him a certain loss. I need scarcely add more to prove that the idea which conceives an unnaturally high rate of interest to be beneficial to the banker is an entirely erroneous one. The permanently higher rates of interest which exist in some countries, such as Sweden, Canada, &c., prove nothing in favour of such an argument, as the financial positions of these half-developed and capitalless countries have not yet advanced to that stage when the principles of competition, demand, supply, &c., have entered the field, and been allowed to exercise that regulating influence which is necessary before the monetary affairs of a country can be said to be relatively in order.

Dr. Adam Smith says: 'The riches, and, so far as power depends upon riches, the power of every country must always be in proportion to the value of its annual produce—the fund from which all taxes must ultimately be paid. But the great object of the political economy of every country

is to increase the riches and power of that country.' Panics and frequent pressure in the money market, causing high rates of interest, although producing a temporary increase of a banker's profits, neither conduce to his ultimate permanent welfare, nor 'increase the riches and power of that country,' as the difficulty of obtaining that commodity, by which industry is set in motion and agriculture advanced and made more productive, will keep a country back; throw numbers of its people out of employ, thereby sowing the seeds of disaffection and disorder; will cause compound loss by all descriptions of stock, plant and other kinds of capital deteriorating by their remaining idle and unproductive; and will impede the progress of science and invention, by withdrawing artisans, mechanics, &c., from their accustomed employment, by which the general advancement of civilisation must be retarded.

As the fluctuations in the demand and supply of loanable capital are more frequent than with any other description of capital, it being the commodity by whose agency all others are exchanged, it will be evident that industry and commerce will be affected in all their branches by the fluctuation in the price of loans.

There is what our first writers on political economy call the 'natural rate,' either side of which fluctuations will always take place, and are always expected to take place, and for which merchants and traders are accustomed to leave a margin in their calculations.

The unnaturally high rates which have ruled in the London market during the last three or four years, can be accounted for to a great extent by the artificial pressure which is brought to bear by the number of borrowers, who seek to obtain possession of large sums of money, not for the purpose of employing it directly in assisting in the increase of the natural productions of the earth, but for the purpose of lending it again at a higher rate, thereby giving an abnormal and artificial value to money; and, as a matter of course, the farther this system can be carried with any degree of safety and permanence, in a like degree may the price at which the use of capital can be obtained be expected to remain unnaturally enhanced.

That part which forms so important an item in a banker's profits, should be received from his clients as much for their benefit, and more so, than for his. Setting aside the pleasantness of the banker's position, when he lends his money to a

client who cheerfully pays the rate of interest demanded, there can be no doubt whatever that neither side is benefited so well permanently, as when a client pays a rate of interest which the business in which he employs it will safely bear, and the banker can part with his money with a conviction that he will receive it *when* due, and in the meantime will have no occasion to supply its place at a loss.

Mr. John Stuart Mill, 'Principles of Political Economy,' vol. ii. p. 194, says: 'Fluctuations in the rate of interest arise from variations either in the demand for loans, or in the supply. The supply is liable to variation, though less so than the demand. The willingness to lend is greater than usual at the commencement of a period of speculation, and much less than usual during the revulsion which follows. In speculative times, money-lenders, as well as other people, are inclined to extend their business by stretching their credit; they lend more than usual (just as other classes of dealers and producers employ more than usual) of capital which does not belong to them. Accordingly, these are the times when the rate of interest is low, though for this, too (as we shall immediately see), there are other causes. During the revulsion, on the

contrary, interest always rises inordinately, because, while there is a most pressing need on the part of many persons to borrow, there is a general disinclination to lend. This disinclination, when at its extreme point, is called a panic. It occurs when a succession of unexpected failures has created in the mercantile, and sometimes also in the non-mercantile, public a general distrust in each other's solvency; disposing every one, not only to refuse fresh credit, except on very onerous terms, but to call in, if possible, all credit which he has already given. Deposits are withdrawn from banks; notes are returned on the issuers in exchange for specie; bankers raise their rate of discount, and withhold their customary advances; merchants refuse to renew mercantile bills. At such times the most calamitous consequences were formerly experienced from the attempt of the law to prevent more than a certain limited rate of interest from being given or taken. Persons who could not borrow at five per cent. had to pay, not six or seven, but ten or fifteen per cent. to compensate the lender for risking the penalties of the law; or had to sell securities or goods for ready money at a still greater sacrifice.

'Except at such periods, the amount of capital

disposable on loan is subject to little other variation than that which arises from the gradual process of accumulation; which process, however, in the great commercial countries is sufficiently rapid to account for the almost periodical recurrence of these fits of speculation; since, when a few years have elapsed without a crisis, and no new and tempting channel for investment has been opened in the meantime, there is always found to have occurred, in those few years, so large an increase of capital seeking investment, as to have lowered considerably the rate of interest, whether indicated by the prices of securities or by the rate of discount on bills; and this diminution of interest tempts the possessors to incur hazards, in hopes of a more considerable return.'

It will thus be seen that the rate of interest which may be ruling at one period or another is not influenced by the amount or value of money which may be in circulation.

As the rate of interest rises, all descriptions of securities become depressed; and there is always the danger that bankers will be tempted to lend too large a proportion of their deposits, so that when demanded by the depositors they may be unable to return them.

APPENDIX.

The following is copied from the 'Times' of May 18, 1866.

The return from the Bank of England for the week ending May 16, 1866, gives the following results, when compared with the previous week:—

Rest . .	£3,343,412	Increase .	£105,825
Public deposits	5,936,219	„ . .	154,392
Other deposits	18,620,672	„ . .	5,105,135

On the other side of the account:—

Government securities	£10,837,056	Decrease .	£57,198
Other securities . .	30,943,259	Increase .	10,099,042
Notes unemployed .	730,830	Decrease .	4,219,495

The amount of notes in circulation is 26,120,995*l.*, being an increase of 3,776,600*l.*; and the stock of bullion in both departments is 12,323,805*l.*, showing a decrease of 832,335*l.* when compared with the preceding statement. *This is the most extraordinary return ever presented.* On neither of the two preceding occasions of the suspension of the Bank Act did the figures exhibit any very violent change, but in this instance the peculiar severity of the panic caused an extra 10 millions to be applied for by the public in the shape of discounts and temporary advances, of which 5,105,135*l.* found its way back in the shape of bankers' balances, and between four

and five millions went into circulation in the form of remittances of notes and coin to country bankers and others. Under these circumstances, although the receipts of foreign bullion during the week exceeded the withdrawals for exportation by 93,000*l.*, the stock held shows a decrease of 832,335*l.* As the reserve of notes and bullion in the banking department still amounts to 1,202,810*l.*, it will be seen that no actual infringement of the Act has taken place, and consequently, that no Parliamentary action will be requisite.

In reply to the questions of two honourable members of the House of Commons, put to the Chancellor of the Exchequer on May 17, 1866, Mr. Gladstone, in informing them that they were under a misapprehension as to the Bank of England not having made advances 'upon the lodgment of Government securities,' stated that:—'The advances made by the Bank of England on Government securities on Friday, the day of the panic, amounted to 919,000*l.*; on Saturday, to 747,000*l.*, and on three subsequent days various amounts, making up the total amount advanced on these securities in five days to 2,874,000*l.* Then, with regard to the accommodation of commerce in general, the best measure that can be given of the manner in which the Bank has exercised its functions is shown in this—that it has made advances upon bills, and has discounted bills to the extent of 9,350,000*l.*, making a total of advances and discounts in five days of 12,225,000*l.*'

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